

**SECOND AMENDED AND RESTATED
NAVAJO SOUTHERN TRANSMISSION SYSTEM
OPERATING AGREEMENT**

AMONG

THE UNITED STATES OF AMERICA

ARIZONA PUBLIC SERVICE COMPANY

**DEPARTMENT OF WATER AND POWER
OF THE CITY OF LOS ANGELES**

NEVADA POWER COMPANY D/B/A NV ENERGY

**SALT RIVER PROJECT AGRICULTURAL
IMPROVEMENT AND POWER DISTRICT**

TUCSON ELECTRIC POWER COMPANY

**Execution Original
Dated: March 6, 2022**

NAVAJO SOUTHERN TRANSMISSION SYSTEM OPERATING AGREEMENT

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**NAVAJO
SOUTHERN TRANSMISSION SYSTEM
OPERATING AGREEMENT**

1. **PARTIES:** The parties to this Operating Agreement are: THE UNITED STATES OF AMERICA, hereinafter referred to as the “United States” or “U.S.”, authorized by the 1968 Colorado River Basin Project Act and, acting through the Secretary of the Interior, a duly appointed successor or a duly authorized representative; ARIZONA PUBLIC SERVICE COMPANY, hereinafter referred to as “APS”, an Arizona corporation; DEPARTMENT OF WATER AND POWER OF THE CITY OF LOS ANGELES, a department organized and existing under the Charter of the City of Los Angeles, a municipal corporation of the State of California, hereinafter referred to as “LADWP”; NEVADA POWER COMPANY d/b/a NV Energy, hereinafter referred to as “NV Energy”, a Nevada corporation; SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT, hereinafter referred to as “SRP”, an agricultural improvement district organized and existing under the laws of the State of Arizona; and TUCSON ELECTRIC POWER COMPANY, hereinafter referred to as “TEP”, an Arizona corporation; all of the foregoing are sometimes individually referred to as “Participant” and collectively as “Participants”.

2. **RECITALS:** This NAVAJO SOUTHERN TRANSMISSION SYSTEM OPERATING AGREEMENT (“Operating Agreement”) is made with reference to the following facts, among others:
 - 2.1. On July 23, 1979, the Participants entered into the NAVAJO PROJECT SOUTHERN TRANSMISSION SYSTEM OPERATING AGREEMENT (“Original Agreement”), which was supplemented by Supplement No. 1 and amended by Amendments Nos. 1, 2, 3, 4, 5, 6, 7 and 8. The NAVAJO PROJECT SOUTHERN TRANSMISSION SYSTEM OPERATING AGREEMENT established certain terms and conditions relating to the operation and maintenance of the Southern Transmission System.
 - 2.2. The Participants desire to enter into this Operating Agreement to establish certain terms and conditions relating to the operation and maintenance of the Southern Transmission System.
 - 2.3. This Operating Agreement supersedes and replaces, in its entirety, the Original Agreement as amended.
 - 2.4. The purpose of this second amendment and restatement of this Operating Agreement is to: 1) update the responsibility for the operation and maintenance costs found in Exhibit B for the period of 1/1/2020 through 12/31/2029; 2) update minor language changes throughout the document; 3) remove in their entirety Exhibits A, B, K, and M-1 and replace them with amended versions that accurately reflect the current Participants ownership shares, cost responsibility and the facilities as it currently stands; 4) make this agreement consistent with changes being made to the Co-Tenancy Agreement and WTS Operating Agreement.

2.5. This second amended and restated Operating Agreement supersedes and replaces in its entirety the amended and restated Operating Agreement that was effective on December 23, 2019.

3. **AGREEMENT:** The Participants agree as follows:

4. **EFFECTIVE DATE:** This Operating Agreement shall become effective upon execution by the Participants subject to acceptance by the Federal Energy Regulatory Commission ("FERC"), if applicable. This Operating Agreement shall be filed with FERC upon execution in accordance with Section 6.4, if required.

5. **DEFINITIONS:** The following terms when used herein shall have the meanings specified. Capitalized terms used but not defined in this Operating Agreement shall have the meanings defined in the Co-Tenancy Agreement:

5.1. **ACCOUNTING PRACTICE:** Generally accepted accounting principles, in accordance with FERC Accounts.

5.2. **APPLICABLE STANDARDS:** Any applicable regulation, rule, order, law, standard, procedure or requirement issued by any local, state, regional or federal entity with jurisdiction over the operation and maintenance of the Southern Transmission System, including the applicable reliability entity and the North American Electric Reliability Corporation ("NERC") or its successor organization; and any standard, procedure or other requirement adopted by the Participants in writing pursuant to any provision of this Operating Agreement and in conformance with good utility practice; in each case as amended from time to time and whether now existing or hereafter imposed or arising.

5.3. **BENEFITS RATIO:** The ratio to be determined as set forth in Exhibit E hereto.

5.4. **CAPACITY:** Electrical rating expressed in megawatts (MW) or megavolt-amperes (MVA).

5.5. **CAPITAL IMPROVEMENTS:** Any Units of Property, land or land rights which are added to the Southern Transmission System, the betterment of land or land rights or the enlargement or betterment of any Units of Property constituting a part of the Southern Transmission System, and the replacement of any Units of Property for other Units of Property or the replacement of land or land rights constituting a part of the Southern Transmission System, irrespective of whether such replacement constitutes an enlargement or betterment of that which it replaces, which additions, betterments, enlargements and replacements in accordance with Accounting Practice would be capitalized.

5.6. **CAPITAL IMPROVEMENTS A & G RATIO:** The ratio to be determined as set forth in Exhibit H hereto.

5.7. **COMPONENT OF THE SOUTHERN TRANSMISSION SYSTEM:** Any of the components of the Southern Transmission System described in Exhibit A hereto.

- 5.8. CONSTRUCTION COSTS: The costs of constructing the Southern Transmission System, including the costs of constructing Capital Improvements.
- 5.9. CONTRACTING OFFICER: The Secretary, his duly appointed successor or his duly authorized representative.
- 5.10. CO-TENANCY AGREEMENT: The Amended and Restated Navajo Co-Tenancy Agreement entered into by the Participants, effective December 23, 2019, as may be amended or supplemented from time to time.
- 5.11. Reserved
- 5.12. FERC ACCOUNTS: The Federal Energy Regulatory Commission's "Uniform System of Accounts Prescribed for Public Utilities and Licensees (Class A and Class B)," in effect on December 23, 2019, and as such system of accounts may be in effect from time to time. References in this Operating Agreement to specific FERC Account Number(s) shall mean the FERC Account number(s) in effect as of the effective date of this Operating Agreement or any successor FERC Account number(s).
- 5.13. MORGAN 500/230 KV SUBSTATION COST RESPONSIBILITY RATIO ("Morgan 500/230 kV Substation CRR"): The percentage cost responsibility ratio for each Participant or third party for Operating Work as determined pursuant to Section 14.
- 5.14. O & M RATIO AND CONSTRUCTION RATIO: The ratios to be determined as set forth in Exhibit I hereto.
- 5.15. OPERATING AGENT: A non-Federal Participant responsible for the operation and maintenance of the Southern Transmission System pursuant to this Operating Agreement.
- 5.16. OPERATING AGREEMENT: This Navajo Southern Transmission System Operating Agreement, together with all amendments thereto.
- 5.17. OPERATING EMERGENCY: An unplanned event or circumstance which reduces or may reduce the amount of transmission Capacity of the Southern Transmission System that may otherwise be made available under prudent operating criteria.
- 5.18. OPERATING FUNDS: Monies advanced to the Operating Agent on behalf of the Participants or others in accordance with the Operating Agreement.
- 5.19. OPERATING INSURANCE: Policies of insurance relating to the Southern Transmission System to be procured and maintained as provided in Section 22 hereof.
- 5.20. OPERATING WORK: Engineering, contract preparation, purchasing, repair, supervision, training, expediting, inspection, testing, protection, operation, retirement, maintenance, use, management and making Capital Improvements, or any

other work undertaken by the Operating Agent that is required by the Project Agreements, good utility practice or Applicable Standards or that is necessary for the safe and reliable operation of the Southern Transmission System.

- 5.21. OPERATING WORK LIABILITY: Liability of one or more Participants for damage suffered by anyone other than a Participant, whether or not resulting from the negligence of any Participant, its directors, officers, Contracting Officer, employees or any other person or entity whose negligence would be imputed to such Participant, resulting from:
 - 5.21.1. The performance or nonperformance of Operating Work.
 - 5.21.2. The operation, maintenance, use or ownership of the Southern Transmission System.
- 5.22. OPERATION AND MAINTENANCE A & G RATIO: The ratio to be determined as set forth in Exhibit G hereto.
- 5.23. PARTICIPANTS: Any one or more of the parties, including the United States.
- 5.24. PAYROLL TAX RATIO: The ratio to be determined as set forth in Exhibit D hereto.
- 5.25. POWER: Kilowatts (KW) or megawatts (MW).
- 5.26. PROJECT AGREEMENTS: Shall have the same meaning as set forth in the Co-Tenancy Agreement.
- 5.27. RESPONSIBILITY FOR COSTS: The percentage of financial responsibility of each Participant for costs of Operating Work concerning each Component of the Southern Transmission System, as shown on Exhibit B hereto.
- 5.28. SECRETARY: The Secretary of the United States Department of Interior.
- 5.29. SOUTHERN TRANSMISSION COMMUNICATION SYSTEM: The communication equipment necessary to control the Southern Transmission System as provided in Section I.M of Exhibit B to the Co-Tenancy Agreement and generally described in Exhibit A hereto.
- 5.30. SOUTHERN TRANSMISSION SYSTEM (“STS”): The Southern Transmission System including the Navajo 500 kV Switchyard as described in Exhibit A hereto.
- 5.31. SPARE PARTS: Spare parts or equipment, the cost of which is capitalized, which are stocked for the Southern Transmission System. Spare Parts do not include materials and supplies maintained by the Operating Agent for the Southern Transmission System.
- 5.32. TRANSMISSION SYSTEM: The Southern Transmission System and the Western Transmission System.

- 5.33. **UNITS OF PROPERTY:** Units of property as described in the Federal Energy Regulatory Commission's "List of Units of Property for Use in Connection with Uniform System of Accounts Prescribed for Public Utilities and Licensees," in effect as of the date of this Operating Agreement, and as such list may be amended from time to time.
- 5.34. **WESTERN TRANSMISSION SYSTEM:** The Western Transmission System as generally described in Exhibit B to the Co-Tenancy Agreement.
- 5.35. **WILLFUL ACTION:**
- 5.35.1. Action taken or not taken by a Participant at the direction of its directors, officers, Contracting Officer or employees having management or administrative responsibility affecting its performance under any of the Project Agreements, which action is knowingly or intentionally taken or not taken with conscious indifference to the consequences thereof or with intent that injury or damage would probably result therefrom. Willful Action does not include any act or failure to act which is merely involuntary, accidental or negligent.
 - 5.35.2. Action taken or not taken by a Participant at the direction of its directors, officers, Contracting Officer or employees having management or administrative responsibility affecting its performance under any of the Project Agreements, which action has been determined by a court of competent jurisdiction to be a material default under any of the Project Agreements and which occurs or continues beyond the time specified in a final judgment or judicial decree from the court for curing such default or, if no time to cure is specified therein, occurs or continues thereafter beyond a reasonable time to cure such default.
 - 5.35.3. Action taken or not taken by a Participant at the direction of its directors, officers, Contracting Officer or employees having management or administrative responsibility affecting its performance under any of the Project Agreements, which action is knowingly taken or not taken with the knowledge that such action taken or not taken is a material default under any Project Agreements.
 - 5.35.4. The phrase "employees having administrative responsibility" as used in this Section 5.35 means employees of a Participant who are responsible for one or more of the executive functions of planning, organizing, coordinating, directing, controlling and supervising such Participant's performance under any of the Project Agreements.
- 5.36. **WORKERS' COMPENSATION RATIO:** The ratio to be determined as set forth in Exhibit F hereto.

6. PERFORMANCE OF OPERATING WORK

- 6.1. APS shall be the Operating Agent of the Southern Transmission System.
- 6.2. United States, LADWP, NV Energy, SRP and TEP do hereby appoint the Operating Agent as their agent and the Operating Agent shall undertake as their agent and as principal on its own behalf the responsibility for the performance of Operating Work.
- 6.3. The Operating Agent shall:
 - 6.3.1. Perform Operating Work with the objective of permitting each Participant to transmit Power, under normal operating conditions, in amounts equivalent to the product of each Participant's respective cost responsibility in each line segment of the Southern Transmission System and the associated rating (Western Electricity Coordinating Council or its successor approved or Engineering and Operating Committee approved, as applicable) of such line segment to each Participant's designated points of delivery in a manner which will not unreasonably affect the operation of the electric systems of the Participants, including the Western Transmission System, and so that when operated in parallel with such systems, the loss of any one circuit of the Southern Transmission System will not cause any other circuit or element of any of the parallel transmission systems of a Participant to carry Power in excess of the short-term rating of such parallel transmission system.
 - 6.3.2. Perform Operating Work pursuant to the provisions of Section 6.3.1 hereof, with the objective of enabling the United States to schedule the transmission of up to 450 MW in either direction over the Mead-Peacock 345 kV line under normal operating conditions.
 - 6.3.3. Perform Operating Work in accordance with generally accepted practices in the electric utility industry as such practices may be affected by the design and operational characteristics of the Southern Transmission System, the rights and obligations of the Participants under this Operating Agreement, and any other special circumstances affecting Operating Work.
 - 6.3.4. Contract for, furnish and obtain from any sources it may select, including any Participant, the services and studies necessary for performance of Operating Work.
 - 6.3.5. Execute and enforce contracts in the name of the Operating Agent, acting as principal on its own behalf and as agent for all of the other Participants, necessary for the performance of Operating Work.
 - 6.3.6. Furnish and train the necessary personnel for performance of Operating Work.

- 6.3.7. Comply with (i) any and all laws and regulations applicable to the performance of Operating Work, including all applicable provisions of any workers' compensation laws; and (ii) the terms and conditions of any contract relating to the Southern Transmission System.
- 6.3.8. Purchase and procure, through and from any source it may select, the equipment, apparatus, machinery, tools, materials and supplies necessary for the performance of Operating Work.
- 6.3.9. Expend the Operating Funds advanced to the Operating Agent in accordance with the terms and conditions of this Operating Agreement.
- 6.3.10. Keep and maintain records of monies received and expended, obligations incurred, credits accrued, and contracts entered into in the performance of Operating Work and make such records available for inspection by the other Participants at reasonable times and places.
- 6.3.11. Not suffer any liens to remain in effect unsatisfied against the Southern Transmission System (other than the liens permitted under the Project Agreements, liens for taxes and assessments not yet delinquent, liens for workers' compensation awards, liens for labor and material not yet perfected); provided, that the Operating Agent shall not be required to pay or discharge any such lien as long as the Operating Agent in good faith shall be contesting the same which shall operate during the pendency thereof to prevent the collection or enforcement of such lien so contested.
- 6.3.12. Arrange for the placement and maintenance of Operating Insurance pursuant to Section 22 hereof.
- 6.3.13. Present claims to any insurer for losses and damages covered by Operating Insurance. Investigate, adjust, settle, decline and defend claims against the Participants arising out of or attributable to Operating Work when said claims are not covered by Operating Insurance, or arising out of the past or future performance or nonperformance of the obligations and duties of any Participant (including the Operating Agent) under or pursuant to this Operating Agreement, including but not limited to any claim resulting from death or injury to persons or damage to property for which payment shall not be made on account of other valid and collectible Operating Insurance or other valid and collectible insurance carried by any Participant, and present and prosecute claims against any insurer or other party for losses and damages in connection with Operating Work. The approval of the Engineering and Operating Committee shall be obtained by the Operating Agent before any uninsured claim or combination of uninsured claims arising out of the same transaction or incident is settled for more than One Hundred Thousand Dollars (\$100,000.00).
- 6.3.14. Assist any insurer in the investigation, adjustment and settlement of any loss or claim.

- 6.3.15. Keep the Participants fully and promptly advised of material changes in conditions or other material developments affecting the performance of Operating Work, including known defaults of Project Agreements, and furnish the other Participants with copies of any notices given or received pursuant to the Project Agreements.
- 6.3.16. Provide the Engineering and Operating Committee with all written statistical and administrative reports, operating reports, written budgets, accounting records and information and other records relating to Operating Work which may be necessary to permit such committee to perform its responsibilities under this Operating Agreement.
- 6.3.17. Provide the Auditing Committee or any requesting Participant with all accounting records, information, reports and other records relating to Operating Work which may be necessary to permit such committee or Participant to perform its audit in accordance with Section 8 of the Co-Tenancy Agreement and Section 9.3 of this Operating Agreement.
- 6.3.18. Upon the request of any Participant, provide such Participant, in reasonable quantity without direct charge therefor, a copy or copies of any report, record, list, budget, manual, accounting or billing summary, classification of accounts or other documents or revisions of any of the aforesaid items, all as prepared in accordance with this Operating Agreement.
- 6.3.19. Prepare recommendations covering the matters which are to be reviewed and acted upon by the Engineering and Operating Committee.
- 6.3.20. Follow the practices and procedures which have been reviewed and approved by the Engineering and Operating Committee.
- 6.3.21. Coordinate scheduled outages of the Southern Transmission System with the other Participants.
- 6.4. The Operating Agent shall file this Operating Agreement (and any amendment hereto) with the appropriate governmental authority, if required and shall notify the other Participants promptly thereafter of the date the filing was made and provide the Participants a copy of any such filing. If the Operating Agent is not subject to FERC jurisdiction the FERC jurisdictional Participants will determine which Participant will file this Operating Agreement with FERC. Any Participant may request that any information so provided be subject to the confidentiality provisions of Section 23 herein. The Participants shall reasonably cooperate with respect to any such filing and provide any information reasonably requested by any Participant as needed to comply with applicable laws and regulations.
- 6.5. The other Participants shall lend, and be properly reimbursed for, all necessary and available assistance as may be requested by the Operating Agent in the performance of Operating Work.

7. USE, SCHEDULING AND LOSSES

- 7.1. The Participants shall have those rights and interests in the Southern Transmission System established in Section 7 of the Co-Tenancy Agreement.
- 7.2. Any Participant may make use of transmission Capacity in addition to its use under Section 7.1 of the Co-Tenancy Agreement to the extent that transmission Capacity is determined to be available by the owning Participant for that segment of the Transmission System over which the Capacity is desired. The Participant requesting transmission Capacity shall procure transmission service in accordance with the owning Participant's Open Access Transmission Tariff (OATT).
- 7.3. Transmission losses in the Southern Transmission System shall be determined by the Operating Agent in accordance with criteria approved by the Engineering and Operating Committee.

8. CURTAILMENT OF TRANSMISSION CAPACITY IN THE SOUTHERN TRANSMISSION SYSTEM: The Operating Agent shall as soon as practicable notify the dispatchers of each Participant of the occurrence of an Operating Emergency, and the amount of any resulting curtailment which shall be determined by the Operating Agent in accordance with criteria approved by the Engineering and Operating Committee.

9. ADMINISTRATION

- 9.1. Committees to administer this Operating Agreement are defined and established in the Co-Tenancy Agreement and shall have the duties and responsibilities relating to this Operating Agreement established herein and in other Project Agreements.
- 9.2. The Engineering and Operating Committee shall have, in addition to those responsibilities set forth in other Project Agreements, the responsibility, among others, to review and approve the following items related to performing Operating Work:
 - 9.2.1. The annual Capital Improvements budget, and annual operation and maintenance budget.
 - 9.2.2. The planned outages scheduled for maintenance.
 - 9.2.3. The procedures for establishing the Spare Parts inventory.
 - 9.2.4. The form of written statistical and administrative reports, written budgets, and information and other similar records, to be kept by the Operating Agent (excluding accounting records used internally by the Operating Agent for the purpose of accumulating financial and statistical data, such as books of original entry, ledgers, work papers, and source documents).
 - 9.2.5. The procedures for performance and efficiency testing.

- 9.2.6. The written statement of operating practices and procedures.
 - 9.2.7. The procedures for accounting for transmission losses.
 - 9.2.8. The procedures for determining Capacities of facilities and for annually determining any excess Capacity in the Southern Transmission System available to the Participants under Section 7.2 of the Co-Tenancy Agreement.
 - 9.2.9. The procedures for Power and energy accounting.
 - 9.2.10. The procedures for dealing with Operating Emergencies or curtailed operations.
- 9.3. Audit. Each Participant shall maintain adequate financial records and documents to support all Construction Costs, Operating Costs and Capital Improvements billed to the other Participants. The Operating Agent shall maintain financial records and documents relating to Operating Costs and Capital Improvements for five (5) years after the billing period. Each Participant shall make such financial records and documents available to the other Participants' auditors or a certified public accounting firm upon request by the other Participant(s) to review and examine as necessary, in determining if such costs billed are in accordance with the terms of this Operating Agreement; provided that such request for review and examination by a Participant may not be made more than one time per year. This audit and financial review shall be conducted during normal business hours and at the sole cost of the Participant who is performing the audits.
- 9.4. Notwithstanding the provisions of Section 8.4 of the Co-Tenancy Agreement, in the event of an Operating Emergency, action may be taken or a determination may be made by the Engineering and Operating Committee on the basis of oral approvals, and such action or determination subsequently shall be reduced to writing.
- 9.5. If the Engineering and Operating Committee is unable to agree on any matter brought before it under this Section 9, all Disputes, including any other Disputes arising under this Operating Agreement, shall be resolved as set forth in Section 18 of the Co-Tenancy Agreement.

10. SOUTHERN TRANSMISSION COMMUNICATION SYSTEM

- 10.1. The initial Southern Transmission Communication System described in Exhibit K hereof shall be solely owned by APS in accordance with Exhibit A, Section A.15 of the Co-Tenancy Agreement.
- 10.2. Construction Costs of initial or future multiplex voice channels installed as part of the Southern Transmission Communication System for the exclusive use of a specified Participant, as provided in Exhibit K hereto, shall be paid for by such Participant. If a future voice channel for a specified Participant necessitates the installation of common group or super group equipment, such equipment will also be

paid for by such Participant. The balance of the Construction Costs of the Southern Transmission Communication System shall be allocated to and paid for by the Participants in the percentage set forth under “Participants Responsibility For Costs (% Total Costs)” in Exhibit B hereto.

- 10.3. Capital Improvements to the Southern Transmission Communication System shall be solely owned by APS.

11. OPERATING EMERGENCY

- 11.1. In the event of an Operating Emergency, the Operating Agent shall take any and all steps reasonably necessary and required to terminate the Operating Emergency, in accordance with generally accepted practices in the utility industry.
- 11.2. As soon as practicable after the commencement of an Operating Emergency, the Operating Agent shall advise the Participants of the occurrence of the Operating Emergency, its nature and the steps taken or to be taken to terminate the Operating Emergency, including a preliminary estimate of the expenditures required to terminate the Operating Emergency.
- 11.3. The costs incurred and amounts expended and charged to maintenance expense by the Operating Agent for repair, restoration, and reconstruction of the Southern Transmission System shall be allocated to the Participants in proportion to their Responsibility for Costs for the Components of the Southern Transmission System being repaired, restored, or reconstructed and billed in accordance with Section 17 hereof. Such costs incurred and amounts expended by the Operating Agent which are for Capital Improvements shall be allocated to the Participants in proportion to their Responsibility for Costs in the Components of the Southern Transmission System to which such Capital Improvements are made, and the Operating Agent shall bill the Participants therefor.
- 11.4. Following the termination of the Operating Emergency, the Operating Agent shall submit to the Participants a report containing a summary of the costs incurred and expenditures made in connection with the repair, restoration, reconstruction or Capital Improvements and such other information as may be required by the Engineering and Operating Committee.

12. EXPENSES OF OPERATING WORK

- 12.1. The costs of Operating Work shall include the following expenses to the extent that they are chargeable to the Southern Transmission System in accordance with Accounting Practice:
 - 12.1.1. The operation expenses chargeable to FERC Accounts 560 through 567, inclusive.
 - 12.1.2. The maintenance expenses chargeable to FERC Accounts 568 through 573, inclusive.

- 12.1.3. Overhead expenses included in Sections 12.1.1 and 12.1.2 hereof incurred by the Operating Agent. Such overhead expenses shall be determined in accordance with Exhibit C hereto.
- 12.1.4. The maintenance expenses of the Southern Transmission Communication System as provided in Exhibit K hereto.
- 12.1.5. Applicable labor loading charges for Operating Agent's direct labor charged to operation and maintenance accounts, and applicable labor loading charges on the portion of labor included in overhead expenses loaded on such direct labor charges. Such labor loading charges shall include but not be limited to time-off allowances, employee payroll taxes chargeable to FERC Account 408 and employee benefits chargeable to FERC Account 926 and workers' compensation chargeable to FERC Account 925.
 - 12.1.5.1. Payroll tax expenses incurred by the Operating Agent, which are allocable to operation and maintenance accounts, pursuant to this Section 12.1.5, shall be determined annually in accordance with the procedure and example shown on Exhibit D hereto.
 - 12.1.5.2. Employee pensions and benefits expenses incurred by the Operating Agent, which are allocable to operation and maintenance accounts, pursuant to this Section 12.1.5, shall be determined annually in accordance with the procedure and example shown on Exhibit E hereto.
 - 12.1.5.3. That portion of employee workers' compensation expenses and the related administrative expenses incurred by the Operating Agent which are allocable to operation and maintenance accounts, pursuant to this Section 12.1.5, shall be determined annually in accordance with the procedure and example shown on Exhibit F hereto.
- 12.1.6. That portion of the Operating Agent's administrative and general expenses which are allocable to operation and maintenance of the Southern Transmission System shall be determined annually in accordance with the example shown in Exhibit G hereto.
- 12.1.7. All costs incurred by the Operating Agent which are chargeable to FERC Accounts 408 (excluding payroll and ad valorem taxes), 924, and 925 (except for costs pursuant to Section 12.1.5.3).
- 12.1.8. A portion of the load dispatching salaries and expenses as defined by FERC Account 561 and incurred by the Operating Agent shall be charged to the Participants. Such allocation shall be determined using three steps.

Step 1 multiplies the total FERC Account 561 salaries and expenses incurred for load dispatching on the APS transmission systems above 69 kV by an activity based allocation percentage as follows:

$$\begin{aligned} \$A &= \text{Out}\% \times \$T \\ \$B &= \text{Etag}\% \times \$T \end{aligned}$$

Where:

$\$A$ = load dispatch dollars associated with planned and unplanned outages

$\$B$ = load dispatch dollars associated with Electronic Tags (Etag)

$\text{Out}\%$ = Percentage of load dispatch dollars allocated to planned and unplanned outages

$\text{Etag}\%$ = Percentage of load dispatch dollars allocated to Etags

$\$T$ = Total load dispatch dollars as defined by FERC Account 561

Step 2 determines the proportional share of the load dispatch dollars associated with planned and unplanned outages ($\$A$ above) charged to the Participants. This allocation shall be determined by multiplying the associated load dispatch dollars by a ratio which is based on the number of planned and unplanned outages at the Participant owned Southern Transmission System substations and/or switching stations being dispatched having power circuit breakers and/or circuit switchers above 69 kV in accordance with the following formula:

$$\$a = C/D \times \$A$$

Where:

$\$a$ = Total Outage allocation to Participants

C = Number of planned and unplanned outages at Participant owned Southern Transmission System substations and/or switching stations being dispatched having power circuit breakers and/or circuit switchers above 69 kV

D = Number of planned and unplanned outages on the APS transmission system above 69 kV

$\$A$ = load dispatch dollars associated with planned and unplanned outages

Step 3 determines the proportional share of the load dispatch dollars associated with Etags (\$B above) charged to the Participants. This allocation shall be determined by multiplying the associated load dispatch dollars by a ratio which is based on the number of Etags at the Participant owned substations in accordance with the following formula:

$$\text{\$b} = \text{E/F} \times \text{\$B}$$

Where:

$\text{\$b}$ = Total Etag allocation to Participants

E = Number of Etags associated with Participant owned Southern Transmission System substations and/or switching stations being dispatched having power circuit breakers and/or circuit switchers above 69 kV

F = Number of Etags associated with APS transmission system above 69 kV

$\text{\$B}$ = load dispatch dollars associated with Electronic Tags (Etag)

The total load dispatch amount charged to the Participants is the sum of \$a and \$b. Exhibit 1, is attached hereto and incorporated by reference, provides the activity based load dispatching allocation ratios. Annual calculations consistent with the calculations provided in Exhibit 1 shall be submitted to the Engineering and Operating Committee for approval.

- 12.1.9. The costs of Operating Work shall be allocated to the Participants as follows:
 - 12.1.9.1. The cost of maintenance in accordance with their Responsibility for Costs as reflected in Exhibit B hereto for each Component of the Southern Transmission System or, where grouped in Exhibit B hereto, for each group of Components of the Southern Transmission System.
 - 12.1.9.2. Capital Improvements in accordance with their Responsibility for Costs for the Component of the Southern Transmission System associated with such costs.
 - 12.1.9.3. The cost of operation in accordance with the percentages set forth under "Participants' Responsibility for Costs (% Total Costs)" in Exhibit B hereto.

- 12.1.9.4. The cost of maintenance and ad valorem taxes for the Southern Transmission Communication System as provided in Exhibit K hereto.
- 12.2. At the start of each calendar year, an estimated Payroll Tax Ratio, Benefits Ratio, Workers' Compensation Ratio, Operation and Maintenance A & G Ratio, Capital Improvements A & G Ratio, and O & M Ratio and Construction Ratio shall be used, and such rates shall be determined in accordance with the methods set forth in Exhibits D, E, F, G, H and I, respectively. Such rates shall be based on the Operating Agent's system-wide expenses for the preceding calendar year; provided, that by agreement of the Auditing Committee, such rates may be adjusted to more nearly reflect the expenses of the current year because of legislation, labor contract negotiations, or other factors not reflected in the prior year's costs.
- 12.3. As soon as practicable after the end of each calendar year, the actual Payroll Tax Ratio, Benefits Ratio, Workers' Compensation Ratio, Operation and Maintenance A & G Ratio, Capital Improvements A & G Ratio, and O & M Ratio and Construction Ratio for such year shall be determined in accordance with the methods set forth in Exhibits D, E, F, G, H, and I respectively, by using said year's actual system-wide expenses of the Operating Agent. Using said actual ratios, the portions of the Operating Agent's payroll tax expenses, Workers' Compensation expenses, employee pensions and benefits expenses, and administrative and general expenses for which the Participants are obligated hereunder for costs of Operating Work shall be determined for such year. To the extent that such expenses are more than or less than those already paid by the Participants during said year, the Operating Agent shall bill or reimburse the Participants for the amount of such difference.
- 12.4. The Operating Agent's administrative and general expenses, for operation and maintenance functions performed by an outside firm, shall be determined by multiplying the total contract invoice by 0.01.
- 12.5. If any Participant believes that the application of or the method used in determining the Payroll Tax Ratio, Benefit Ratio, Operation and Maintenance A & G Ratio, Workers' Compensation Ratio, O & M Ratio and Construction Ratio or Capital Improvements A & G Ratio results in an unreasonable burden on said Participant, that Participant may request that such application or method be submitted to the Auditing Committee for review; provided, that such review shall not be requested at intervals of not less than two (2) years each. After any such request, subject to the time limitations set forth above, the Auditing Committee shall review such application or method and shall determine whether or not said believed unreasonable burden does actually exist. If after such review the Auditing Committee determines that such application or method does result in an unreasonable burden on one or more of the Participants, the Auditing Committee shall determine and recommend a modified application or method to the Engineering and Operating Committee so that such unreasonable burden would be eliminated if such modified application or method is adopted by the Engineering and Operating Committee.

- 12.6. The Engineering and Operating Committee shall review the recommendations submitted by the Auditing Committee, and if as a result of such review, the Engineering and Operating Committee agrees that such unreasonable burden does exist and that said modified application or method eliminates such unreasonable burden, then the Engineering and Operating Committee shall adopt said modified application or method. If the Auditing Committee has not submitted a recommendation and the Engineering and Operating Committee agrees that such unreasonable burden does exist, the Engineering and Operating Committee shall endeavor to agree on a modified application or method. If the Engineering and Operating is unable to agree on any matter brought before it under this Section 12.6, then any Participant may require that it be referred to an officer or employee of each of the Participant's respective organizations pursuant to Section 18.3 of the Co-Tenancy Agreement.
- 12.7. Any modified method adopted by the Engineering and Operating Committee, Senior Executives, or determined through dispute resolution shall be retroactive to the first day of the month in which the unreasonable burden began except that the retroactive period can be no more than two (2) years from the date of the requested review. Said modified method shall stay in effect until a new modified method is approved, but in no event less than two (2) years from the date of such adoption or determination.
- 13. COMMON FACILITIES EQUALIZATION CHARGE:** Effective November 1991, the United States shall pay, pursuant to Section 17.4 hereof, a monthly common facilities equalization charge. This charge shall reflect the fact that upon the interconnection of the United States' 230 kV transmission line at the United States' designated point of delivery in the Westwing Substation, the United States' use of the common facilities of the Westwing 230 kV Switchyard would be, absent such equalization charge, disproportionate to the United States' contribution to the costs of such common facilities.
- 13.1. The Operating Agent shall calculate the monthly charge as set forth in Section 3.0 of Exhibit L-3, CALCULATION OF 230 kV COMMON FACILITIES EQUALIZATION CHARGE, attached hereto. In calculating such monthly charge, the Operating Agent shall use the annual fixed charge rate of each Participant as listed in Section 1.0 of Exhibit L-4, CALCULATION OF ANNUAL FIXED CHARGE RATES & SALES TAXES, attached hereto. Any Participant which can demonstrate to the United States that such Participant's respective annual fixed charge rate shown in Section 1.0 of Exhibit L-4 has become inequitable shall be entitled to change that annual fixed charge rate so that it is equitable; provided, however, that such Participant shall obtain the consent of the United States to such change, which consent shall not be unreasonably delayed or withheld. Within thirty (30) calendar days after receipt by the Operating Agent of written notice from said Participant of such consent, the Operating Agent shall revise Exhibits L-3 and L-4 accordingly and shall provide copies of the revised Exhibits L-3 and L-4 to each Participant. The revised Exhibits L-3 and L-4 shall be effective as of the first billing month following the date of the Operating Agent's transmittal letter. SRP shall use an annual fixed charge rate which is consistent with its pricing methods used for other inter-utility transactions.

- 13.2. Subject to Section 13.3 hereof, nothing contained herein, including the provisions of Section 13.1 hereof, shall be construed as affecting in any way the rights of any Participant subject to the jurisdiction of the Federal Energy Regulatory Commission ("FERC") to unilaterally make application to FERC for a change in its annual fixed charge rate shown in Exhibit L-4 attached hereto, pursuant to Section 205 of the Federal Power Act and the rules and regulations promulgated thereunder. In the event such application to FERC results in a change to applicant's annual fixed charge rate, applicant shall provide copies of the FERC order granting such change to Operating Agent and to each of the other Participants. Within thirty (30) calendar days after receipt of such FERC order, the Operating Agent shall revise Exhibits L-3 and L-4 accordingly and provide copies of the revised Exhibits L-3 and L-4 to each Participant. The revised Exhibits L-3 and L-4 shall be effective as of the first billing month following the date of
- 13.3. The Participants agree that changes made pursuant to Sections 13.1 or 13.2 hereof shall not be made by any one Participant more frequently than once every two (2) years.
- 14. MORGAN 500/230 KV SUBSTATION CRR:** The Morgan 500/230 kV Substation CRR shall be computed for the purpose of sharing Operating Work between the applicable Participants and any future third parties. For this purpose, each connection to a substation through a power circuit breaker or disconnect switch such as a line or transformer connection, shall be deemed a function ("Function"). The Morgan 500/230 kV Substation CRR shall be computed as shown in Exhibit M-2 hereto. Upon the installation of additional facilities or the interconnection of third parties into the Morgan 500/230 kV Substation, the Morgan 500/230 kV Substation CRR in Exhibit M-2 shall be recalculated by the Operating Agent and approved by the Participants. Unless otherwise agreed, the revised Morgan 500/230 kV Substation CRR shall be effective on the commercial operation date of any new equipment, as determined by the Engineering and Operating Committee, or, in any other case, on the effective date of the Operating Agreement necessitating the revision. The construction and additional facilities must be mutually agreed upon or approved by the parties. The applicable Participants shall have the right to share in any Capacity increases in the Morgan 500/230 kV Substation resulting from such construction and installation (which shall be in accordance with the ownership percentages specified in Exhibit A to the Co-Tenancy Agreement) and in the costs thereof.
- 15. FUTURE DEVELOPMENT OF MORGAN 500/230 KV SUBSTATION**
- 15.1. The installation of any future facilities that become part of the Morgan 500/230 kV Substation, including any interconnection facilities shall be evidenced by a written agreement between the Participants setting out other terms, if any, agreed to by the Participants, including, without limitation, the allocation of costs of the new facilities, ownership of the new facilities, project management responsibilities, the distribution of any reimbursements for use of common facilities, and changes to the Morgan 500/230 kV Substation CRR. Any changes in the Morgan 500/230 kV Substation CRR shall also be reflected in a revision to Exhibit M-2 hereto. Any future interconnection agreement with a third party ("Third Party") into the Morgan 500/230

kV Substation shall adhere to the following principles in accordance with the interconnection cost allocation provisions applicable to the Morgan 500/230 kV Substation as accepted by FERC: (i) APS and SRP shall be entitled to compensation from the Third Party for the Capital Improvement costs previously incurred in connection with the common facilities, with such Capital Improvement costs calculated based on the original installed costs including loading rates, except for land which shall be based upon an appraisal agreed upon by the Participants and the Third Party; and (ii) cost responsibility for ongoing costs including operation and maintenance costs associated with the new facilities and any common facilities will be allocated between the Third Party and Participants pro rata based upon number of Functions; and (iii) cost responsibility for Capital Improvements associated with Morgan 500/230 kV Substation common facilities, including but not limited to any Morgan 500/230 kV Substation common facilities resulting from the Third Party's interconnection will be allocated between the Third Party and Participants pro rata based upon the number of Functions.

- 15.2. Future Third Party interconnections into the Morgan 500/230 kV Substation shall make a common facilities use fee payment to the Operating Agent utilizing the formula set forth in Exhibit M-1 prior to the in-service date for the Third Party interconnection. APS and SRP shall receive a pro rata share of the Third Party common facilities use payment based on the Morgan 500/230 kV Substation Responsibility For Cost percentages shown in Exhibit B as reimbursement for common facilities costs and any Capital Improvement costs in connection with common facilities previously paid.
- 15.3. APS and SRP shall have the right to utilize land within the Morgan 500/230 kV Substation site as depicted in Exhibit M-3 for construction and operation of non-conflicting electric lines and facilities (as determined by National Electric Safety Code standards and agreed upon maintenance practices), provided, however, that (i) any party (APS or SRP) utilizing this right shall give the other party (APS or SRP) the opportunity to co-venture or participate in the project on terms and conditions to be mutually agreed, and (ii) the party (APS or SRP) utilizing a portion of the Morgan 500/230 kV Substation, and any other participating party (APS or SRP), shall reimburse the non-participating party (APS or SRP) for use of such land by payment of a percentage of the then current appraised value of the portion of the Morgan 500/230 kV Substation upon which the new line or facility shall be placed, provided that APS shall not reimburse any other participating Party (APS or SRP) for its use of land dedicated to the 230 kV switchyard. Appraised value shall be determined by an appraiser reasonably acceptable to APS and SRP, and the percentage payable shall be the percentage of market value customarily paid by the party (APS or SRP) installing the line or facility to unrelated third party landowners for similar lines.
- 15.4. APS and SRP shall have the right to utilize land within the Morgan 500/230 kV Substation site as depicted in Exhibit M-3 to store a spare 500/230 kV transformer that they jointly own at no cost. This spare 500/230 kV transformer is not part of the Transmission System. Notwithstanding the provisions of Section 24 below, APS and SRP shall indemnify, defend and hold harmless the other Participants and all of their

directors, officers, Contracting Officer and employees from and against any loss, cost, claims, suits, causes of action, liability and damage of any kind, including without limitation, death, injury, property damage, and attorneys' fees, arising from or in connection with such spare 500/230 kV transformer.

16. SPARE PARTS

- 16.1. The Operating Agent for the Southern Transmission System having purchased all initial Spare Parts, shall maintain a Spare Parts inventory for the Southern Transmission System in accordance with policies prepared by the Operating Agent and approved by the Engineering and Operating Committee.
- 16.2. The Operating Agent shall purchase all replacements of Spare Parts and shall allocate the costs thereof to the Participants in proportion to their Responsibility for Costs for the Component of the Southern Transmission System for which the Spare Part is committed, or if such commitment cannot be made, then such costs shall be allocated among the Participants on the basis of the average weighted Responsibility for Costs for all Components of the Southern Transmission System as shown from time to time on Exhibit B hereto.

17. PAYMENTS: The Operating Agent shall bill the other Participants for costs incurred under this Operating Agreement as follows:

- 17.1. Costs described in Sections 11, 12 (except Section 12.1.7), 13, and 21 hereof shall be billed monthly and shall be due and payable within ten (10) business days following receipt of such bill.
- 17.2. Costs described in Sections 12.1.7, 15, 18, and 19 hereof shall be billed within a reasonable time following the incurrence of such expenditure or obligation and shall be due and payable within ten (10) business days following receipt of the bill.
- 17.3. In determining costs to be borne by the United States under this Agreement, the United States shall be given appropriate credit for any interest in Federal lands, other than Indian lands, administered by the Department of the Interior which are made available for the Transmission System without assessment of fees or charges to the Co-tenants. In instances where Federal laws or regulations prescribe fees or charges, for the use of Federal lands which are so administered and made available for the Transmission System, the amount of such fees or charges or the provisions of such laws or regulations shall govern the determination of the credit to be given to the United States. In the absence of applicable Federal laws or regulations, the amount of the credit to be given to the United States shall be as mutually agreed upon by the Participants or, failing such agreement, as conclusively determined by the Secretary.
- 17.4. The charges described in Section 13.1, hereof shall be billed by the Operating Agent to the United States before the first calendar day of each month. Such charges shall be due and payable by the United States to the Operating Agent by the fifteenth calendar day of such month. Operating Agent shall credit a portion of the initial payment and of each monthly payment thereafter to each Participant in accordance

with Section 3.0, CALCULATION OF 230 kV COMMON FACILITIES EQUALIZATION CHARGE, of Exhibit L-3 attached hereto.

18. PAYMENT OF TAXES

- 18.1. The Operating Agent shall use its best efforts to have any taxing authority imposing any property taxes or other taxes (excluding any sales or use taxes) or assessments on the Southern Transmission System, excluding other associated components of the Southern Transmission System described in Exhibit A hereto, impose such taxes or assessments directly upon each Participant on the basis of its Responsibility for Costs for the Component of the Southern Transmission System being assessed.
- 18.2. All taxes and assessments levied against any Participant shall be the sole responsibility of the Participant upon whom said taxes and assessments are levied unless such taxes and assessments are levied directly upon an individual Participant on behalf of any or all of the other Participants.
- 18.3. Except as to the interest in the Southern Transmission System held by SRP for the use and benefit of the United States, if any property taxes or any other taxes and assessments are levied and assessed in a manner other than as specified in Section 18.1 hereof, it shall be the responsibility of the Engineering and Operating Committee to establish equitable practices and procedures for the apportionment among the Participants of such taxes and assessments and the payment thereof.
- 18.4. Any Participant exempted from any taxes assessed against any or all of the other Participants shall be given credit for such exemption.

19. SALES TAXES: The Participants believe that a Participant's ("Recipient") receipt of its proportionate share of the monthly common facilities equalization charge payment made by the United States pursuant to Section 17.4 hereof is not subject to federal, state or local excise, transaction privilege, sales, business activity, gross receipts, or any similar tax ("Taxes").

- 19.1. If, and in the event that, the Arizona Department of Revenue of the State of Arizona, cities or towns in the State of Arizona, or other governmental units ("Taxing Entity") issue an assessment or notice of intent to assess (collectively, the "Assessment") to any Recipient for such Taxes and any associated interest and penalties:
 - 19.1.1. Such assessed Recipient shall bill the United States for such tax whether prospectively or retroactively, and the United States agrees to pay the same to the assessed Recipient and the assessed Recipient will make such payments to the Taxing Entity either under protest on behalf of the United States and the assessed Recipient, as their interest may appear, or not, at the direction of the United States.
 - 19.1.2. The United States shall pursue its legal remedies to the extent it desires, at its own cost and expense and with counsel and other personnel of its own choosing. In so doing, the assessed Recipient will permit the United States

to take such action or actions in the assessed Recipient's name whenever the same is required by law or otherwise appropriate in the circumstances; provided, however, that the United States shall not take a position in said action inconsistent with the interests of the assessed Recipient. The assessed Recipient may withdraw this permission and notify the regulatory agency or court that it has done so and its reasons for so doing.

19.1.3. The United States hereby indemnifies the assessed Recipient against any tax, interest, penalty or otherwise that finally may be found to be due and owing by the assessed Recipient as the result of, or arising out of, the assessed Recipient's receipt of its proportionate share of the monthly payment made by the United States pursuant to Section 17.4 hereof.¹

19.2. Each party to any proceedings pursuant to this Section 19 shall bear its own costs and expenses, including attorneys' fees, in connection therewith.

20. ANNUAL BUDGETS

20.1. No later than August 1 of each calendar year, the Operating Agent shall prepare and submit to the Engineering and Operating Committee for its review and approval the proposed annual Capital Improvements budget, and annual operating and maintenance budget for Operating Work for the next calendar year of operation.

20.2. No later than October 31 of each calendar year, the Engineering and Operating Committee shall approve an annual operating and maintenance budget for Operating Work and an annual Capital Improvements budget for the next calendar year. If such budgets are not approved by the Engineering and Operating Committee in final form prior to the beginning of the next calendar year, the Operating Agent shall nevertheless continue to perform Operating Work, except such Operating Work relating to unauthorized Capital Improvements, in accordance with Section 6 hereof until such time as a budget has been approved or otherwise determined in accordance with the Project Agreements.

20.3. Any information required from any Participant by the Operating Agent in preparing the proposed budgets shall be supplied by such Participant.

20.4. The Engineering and Operating Committee may at any time during the year approve revisions to the annual Capital Improvements budget (subject to the provisions of Section 21.3 hereof), and the annual operating and maintenance budget for Operating Work.

¹ The obligations imposed on the United States by Section 19 herein are subject to the provisions of the Anti-Deficiency Act, 96 Stat. 923, and all applicable federal laws and regulations. The Participants recognize that payment of sales taxes by the United States under Section 19.1.1, or any obligation of the United States to indemnify a Participant under Section 19.1.3, may be prohibited by federal law.

21. CAPITAL IMPROVEMENTS

- 21.1. All proposed expenditures for Capital Improvements, including a contingency allowance for capital expenditures if necessitated by an Operating Emergency, shall be included in the annual Capital Improvements budget. After such budget has been approved by the Engineering and Operating Committee, each Participant shall be obligated for the costs incurred for such Capital Improvements, other than Capital Improvements to the Southern Transmission Communication System, in proportion to its Responsibility for Costs, and each Participant's rights, titles and interests therein, except in other associated components of the Southern Transmission System described in Exhibit A hereto, shall be in proportion to its Responsibility for Costs.
- 21.2. Construction Costs for Capital Improvements to the Southern Transmission Communication System shall be paid for by the Participant(s) desiring the Capital Improvement. Construction Costs for Capital Improvements to the Morgan 500/230 kV Substation shall be allocated between the parties in proportion to their Cost Responsibility Ratios. Construction Costs for Capital Improvements installed for the benefit of the Southern Transmission System shall be allocated and paid by the Participants in accordance with the percentages set forth under "Participants' Responsibility for Costs (% Total Costs)" in Exhibit B hereto.
- 21.3. At any time the Engineering and Operating Committee may authorize Capital Improvements not included in the annual Capital Improvements budget.
- 21.4. The Operating Agent shall submit to the Participants a forecast of cash requirements by months for the budget year and by years for subsequent years for any Capital Improvements. Said forecast shall be submitted on a yearly basis after final budget approvals have been made. A revised forecast shall be submitted when the Capital Improvements budget is revised and approved, or when significant changes in monthly expenditures from those previously forecast are anticipated.
- 21.5. The Operating Agent shall be responsible for the design and construction of all Capital Improvements.
- 21.6. The costs of Capital Improvements shall include:
 - 21.6.1. All costs incurred by the Operating Agent (other than obligations for interest during construction) which conform to the provisions of Electric Plant Instruction 3 of the FERC Accounts entitled, "Components of Construction Cost;" provided, however, that (i) charges pursuant to Items (8) (injuries and damages) and (14) (insurance) of said Instruction 3 shall not include any costs shared by the Participants pursuant to Section 22 hereof, and (ii) charges pursuant to Item (16) (taxes) of said Instruction 3 shall not include any taxes shared by the Participants pursuant to Section 18 hereof. However, such charges shall include costs of any injuries or damages arising out of and occurring during the course of construction of Capital Improvements and the cost of any additional insurance which, upon the Operating Agent's recommendation, the Engineering and Operating

Committee deems necessary to protect the interests of the Participants during the effectuation of such Capital Improvements prior to the time the coverage provided in Section 18 hereof becomes applicable thereto.

- 21.6.2. All applicable overhead costs incurred by the Operating Agent which conform to the provisions of Electric Plant Instruction 4 of the FERC Accounts entitled "Overhead Construction Costs."
- 21.6.3. Applicable labor loading charges for the Operating Agent's employees whose salaries and wages are charged to Capital Improvements shall be determined by multiplying such salaries and wages by the ratios derived in accordance with Exhibits D, E and F hereto.
- 21.6.4. If any Capital Improvements are made by the Operating Agent's employees, the amount of the Operating Agent's administrative and general expense allocable to such Capital Improvements shall be determined by multiplying the sum of the Operating Agent's labor charges included in Section 21.6.1 hereof by the Capital Improvements A & G Ratio derived in accordance with Exhibit H hereto. (For the expenses in Section 21.6.3 hereof and in this Section 21.6.4, estimated ratios shall be used, and year-end adjustments shall be made in a manner similar to that described in Section 12.2 and 12.3 hereof.)
- 21.6.5. If any Capital Improvements are made by a contractor, the amount of the Operating Agent's administrative and general expenses allocable to such Capital Improvements shall be determined by multiplying the total contract cost by 0.01. As used herein, "total contract cost" does not include the costs of injuries and damages, claims, taxes (other than sales and use taxes), and interest incurred by the Operating Agent during the construction of Capital Improvements.
- 21.6.6. Units of Property retired from service shall be disposed of by the Operating Agent on the best available terms as soon as practicable, and the proceeds, if any, received therefrom shall be credited or distributed to the Participants in proportion to their Responsibility for Costs associated with such units.

22. OPERATING INSURANCE

- 22.1. Unless otherwise specified by the Engineering and Operating Committee, the Operating Agent shall procure, if available, and maintain in force, or cause to be procured and maintained in force, policies of Operating Insurance of the following types:
 - 22.1.1. Workers' compensation insurance with no less than statutory limits to cover obligations imposed by federal and state statutes having jurisdiction over employees of the Operating Agent or any persons engaged in the performance of the Operating Work, or a qualified self-insured program.

- 22.1.2. Employer's liability insurance with a minimum limit of one million dollars (\$1,000,000) or a qualified self-insurance program.
- 22.1.3. Commercial general liability insurance and/or excess liability insurance including premises and operations, personal injury, broad form property damage, broad form blanket contractual liability coverage (including coverage for the contractual indemnification) products and completed operations coverage, coverage for explosion, collapse and underground hazards, independent contractors coverage, coverage for pollution to the extent normally available and punitive damages to the extent normally available and a cross liability endorsement, with limits not less than twenty million dollars (\$20,000,000) per occurrence/twenty million dollars (\$20,000,000) aggregate for personal injury, bodily injury, including death and property damage.
- 22.1.4. Business automobile liability insurance with a combined single limit for bodily injury and property damage of not less than ten million dollars (\$10,000,000) each occurrence with respect to the use of vehicles whether owned, hired, or non-owned, assigned to or used in performance of the Operating Work or Capital Improvements, or a qualified self-insured program(s).
- 22.1.5. Property Insurance covering all property, machinery and equipment at full replacement value against all risks of direct physical loss or damage.
- 22.1.6. Crime Insurance covering dishonest acts committed by employees of the Operating Agent while engaged in Operating Work with limits of no less than one million dollars (\$1,000,000).
- 22.1.7. Professional errors and omissions insurance with a limit of not less than five million dollars (\$5,000,000) each occurrence, ten million dollars (\$10,000,000) in the aggregate, for applicable professional services performed including but not limited to engineering work, design and architectural work, legal, financial, accounting, consulting or medical services. Such policy shall cover liabilities for financial loss resulting or arising from negligent acts, errors, or omissions, in rendering services or in connection with the services provided under this Operating Agreement or any order. The retroactive date shall precede the date of services and continuous coverage shall be maintained during the life of the Operating Agreement, or any order, and for three years (either as a policy in force or extended reporting period) after completion, cancellation or termination of the Operating Agreement or any order.
- 22.1.8. If applicable, aircraft liability insurance covering fixed wing and rotorcraft aircraft whether owned, hired, or non-owned with a combined single limit for bodily injury and property damage of not less than ten million dollars (\$10,000,000), including passenger liability coverage.

22.1.9. Cyber Liability: If the Operating Agent, as part of the performance of its obligations under this Operating Agreement, will control or develop information technology hardware and/or software, or otherwise control the other Participants' data (including other Participant Confidential Information or Participant Documentation), then the Operating Agent shall provide Cyber Liability and Intellectual Property Infringement Liability insurance of not less than five million dollars (\$5,000,000) per occurrence and ten million dollars (\$10,000,000) in the aggregate for liabilities for financial Loss resulting or arising from acts, errors, or omissions, in connection with the Operating Agent's performance of its obligations under this Operating Agreement, including:

22.1.9.1. Breaches of security or privacy

22.1.9.2. Data theft, damage, destruction, or corruption, including, unauthorized access, unauthorized use, identity theft, theft of personally identifiable information or confidential corporate information, transmission of a computer virus or other type of malicious code

22.1.9.3. Participation in a denial of service attack on a third party

22.1.9.4. Violation or infringement of any privacy right, breach of federal, state, or foreign security and/or privacy laws or regulations

22.1.9.5. Intellectual property infringement arising out of software and/or content (excluding patent infringement and misappropriation of trade secrets)

22.1.9.6. Technology errors and omissions

22.1.9.7. Business interruption

22.1.9.8. Cyber extortion

22.1.9.9. Investigation, notification and related credit monitoring costs from any of the above.

22.2. Insurance Policy Provisions and Conditions.

22.2.1. Additional Insured. Except for Workers' Compensation, Professional Errors and Omissions and Cyber Liability insurance, all the policies required by this Operating Agreement shall name Participants and Participant indemnitees as additional insureds. For any claims related to this Operating Agreement or any order, the Operating Agent's insurance coverage shall be primary insurance and any insurance or self-insurance carried by Participants shall be excess and shall not contribute with it and shall not contain any cross suits exclusions. All policies shall contain

provisions whereby the insurers waive all rights of subrogation in accordance with the provisions of this Operating Agreement against the other party group and provide thirty (30) calendar days advance written notice to the other party group prior to cancellation or any material change in coverage or condition.

To the extent that the insurance policies required under Section 22.1.1 through 22.1.7 of this Operating Agreement are not occurrence based policies, except for workers' compensation and professional liability/errors and omissions, the Participants shall either (a) maintain claims made policies for at least two (2) years following termination of this Operating Agreement, or (b) obtain extended discovery periods for such policies of at least two (2) years following termination of this Operating Agreement. Further, all policies required under Section 22.1.1 through 22.1.7 of this Operating Agreement, except for workers' compensation and professional liability/errors and omissions insurance, shall contain a severability of interest provision, and shall not contain any commutation clause or any other provision that limits third party actions over claims.

Within ten (10) days following execution of this Operating Agreement, and as soon as practicable after the end of each fiscal year or at the renewal of the insurance policy and in any event within ninety (90) days thereafter the Participants, through the Operating Agent, and the interconnection customers shall provide certification of all insurance required in this Operating Agreement, executed by each insurer or by an authorized representative of each insurer.

The requirements contained herein as to the types and limits of all insurance to be maintained by the Participants are not intended to and shall not in any manner, limit or qualify the liabilities and obligations assumed by the Participants under this Operating Agreement.

- 22.2.2. SRP shall be named loss payee on all property insurance covering such interest in the Southern Transmission System as it holds for the use and benefit of the United States. Any proceeds paid to SRP by reason of the destruction of or damage to such interests shall be held or disposed of by it pursuant to the terms of Section 15.4 of the Co-Tenancy Agreement.
- 22.2.3. Any deductibles shall be apportioned among the Participants on the basis of Responsibility for Costs in the Component of the Southern Transmission System involved in the operative facts which gave rise to the insurance claim. However, if the proximate cause of such liability cannot be determined by the Operating Agent or is not related to any particular Component of the Southern Transmission System, then such deductibles shall be apportioned among the Participants on the basis of average weighted Responsibility for Costs in all Components of the Southern Transmission System as shown from time to time on Exhibit B hereto.

- 22.2.4. Each non-Federal Participant shall have the right to have any mortgagee, trustee or secured party named on all or any of the Operating Insurance policies as loss payee or additional insured as its interest may appear, by notice to the Operating Agent given in writing not less than ninety (90) days prior to the procurement or renewal of the Operating Insurance policy(ies), which such notice shall specify the name or names of such mortgagee, trustee or secured party and such additional information as may be necessary or required to permit it to be included on the policy(ies) of Operating Insurance.
- 22.2.5. Notice of Cancellation or Change. Each of the Operating Insurance policies shall be endorsed so as to provide that all additional insureds or loss payees shall be given the same advance notice of cancellation or material change as that required to be given to the Operating Agent.
- 22.2.6. Operating Insurance policies shall be primary insurance for all purposes and shall be so endorsed. Any other insurance carried by a Participant individually shall not participate with Operating Insurance as to any loss or claim for which valid and collectible Operating Insurance shall apply. Such other insurance shall apply solely as to the individual interest of the Participant carrying such other insurance.
- 22.2.7. The Operating Agent shall procure or cause to be procured, such policies of Operating Insurance as in its best judgment are necessary and required to protect the Participants against the insurable risks more particularly set forth in Section 22.1 hereof.

23. CONFIDENTIALITY

- 23.1. All confidential information concerns or procedures associated with this Operating Agreement and the Project Agreements shall be governed by and addressed pursuant to Section 29 of the Co-Tenancy Agreement.

24. LIABILITY

- 24.1. Except for any judgment debt for damage resulting from Willful Action and except to the extent any judgment debt is collectible from valid Operating Insurance, each Participant hereby extends to all other Participants and all of their directors, officers, Contracting Officer and employees, its covenant not to execute on any judgment obtained against any of them for direct or consequential loss from physical damage to its property, which results from the performance or nonperformance of this Operating Agreement.
- 24.2. In the event any insurer providing Operating Insurance refuses to pay any judgment obtained by a Participant against another Participant, or any of its directors, officers, Contracting Officer or employees, on account of liability referred to in Section 24.1 hereof, the Participant or any of its directors, officers, Contracting Officer or employees, against whom the judgment is obtained, shall, at the request of the

Participant obtaining the judgment and in consideration for the covenant given in Section 24.1 hereof, execute such documents as may be necessary to effect an assignment of its contractual rights against the nonpaying insurer.

- 24.3. Except for Operating Work Liability resulting from Willful Action, and except as provided in Section 24.5 hereof, the costs and expenses of discharging all Operating Work Liability imposed upon one or more of the Participants for which payment is not made by Operating Insurance or additional insurance relating to Capital Improvements, shall be allocated among the Participants in proportion to their Responsibility for Costs in the Component of the Southern Transmission System involved in the operative facts which gave rise to the Operating Work Liability. However, if the proximate cause of such liability cannot be determined by the Operating Agent or is not related to any particular Component of the Southern Transmission System, then such costs and expenses shall be allocated among the Participants in accordance with the percentages set forth under "Participants' Responsibility for Costs (% Total Costs)" in Exhibit B hereto.
- 24.4. Each Participant shall be responsible for the consequences of its own Willful Action and shall indemnify and hold harmless the other Participants from the consequences thereof.
- 24.5. Except for liability resulting from Willful Action, any Participant whose electric customer shall make a claim or bring an action against any other Participant for any death, injury, loss or damage arising out of electric service to such customer shall indemnify and hold harmless such other Participants, their directors, officers, Contracting Officer and employees, from and against any liability for such death, injury, loss or damage. The term "electric customer" shall mean an electric consumer to whom no Power is delivered for resale.
- 24.6. The provisions of this Section 24 shall not be construed so as to relieve any insurer of its obligation to pay any insurance proceeds in accordance with the terms and conditions of valid and collectible Operating Insurance policies or additional insurance relating to Capital Improvements.

25. DEFAULT BY OPERATING AGENT

- 25.1. The following provisions shall apply solely in regard to violations or allegations of violations of this Operating Agreement by the Operating Agent on the basis of which removal of the Operating Agent is sought:
 - 25.1.1. In the event any Participant shall be of the opinion that an action taken or failed to be taken by the Operating Agent constitutes a violation of this Operating Agreement, it may give written notice thereof to the Operating Agent and the other Participants, together with a statement of the reasons for its opinion. Thereupon, the Operating Agent may prepare a rebutting statement of the reasons justifying its action or failure to take action. In the event that agreement is not reached between the Operating Agent and the Participant which gave such notice, the matter shall be submitted for dispute

resolution in the manner provided in Section 18 of the Co-Tenancy Agreement. During the continuance of the dispute resolution, the Operating Agent may continue such action taken or failed to be taken in a manner it deems most advisable and consistent with this Operating Agreement.

25.1.2. If it is determined that the Operating Agent has violated or is violating this Operating Agreement, the Operating Agent shall act with due diligence to correct such violation, and in any event within six (6) months or within such lesser time following the decision as may be prescribed in the decision, shall take action in good faith to terminate such violation. In the event that the Operating Agent has either failed to correct or commence action to correct the violation within such allowed period (which itself may be a subject of dispute for determination as above provided), it shall be deemed in default under this Operating Agreement and shall be subject to removal upon receipt of the notice referred to in Section 26 hereof signed by all the other Participants.

25.1.3. The provisions of Section 17 of the Co-Tenancy Agreement shall not apply to Disputes as to whether or not an action or nonaction of the Operating Agent, in its capacity as Operating Agent, is a violation of or a default under this Operating Agreement.

26. REMOVAL OF OPERATING AGENT: The Operating Agent shall serve as such during the term of this Operating Agreement or until it resigns by giving written notice to the other Participants at least one (1) year in advance of the date of resignation or until receipt by the Operating Agent of notice of its removal following a determination that the Operating Agent is in default of this Operating Agreement as provided in Section 25 hereof. Upon the effective date of such resignation or removal, the Operating Agent shall vacate any Components of the Southern Transmission System it is occupying, and prior thereto the Participants shall by written agreement designate a new Operating Agent. Acceptance by the new Operating Agent of its appointment as such shall constitute its agreement to perform the obligations of the Operating Agent pursuant to this Operating Agreement.

27. AUTHORIZATIONS AND APPROVALS: Each Participant shall be responsible for obtaining, at its own expense, its required authorizations and approvals, if any, relating to its participation in the ownership, reconstruction, operation, maintenance or use of the Southern Transmission System and to its performance of the provisions of this Operating Agreement, from Federal, state or local regulatory authorities having jurisdiction to issue such authorizations and approvals, and each Participant shall keep the Operating Agent informed of its applications therefor.

28. TERM: This Operating Agreement shall be coterminous with the Co-Tenancy Agreement and any extension thereof.

29. MISCELLANEOUS PROVISIONS

- 29.1. Each Participant agrees, upon request by the other Participants, to make, execute and deliver any and all documents reasonably required to implement the terms of this Operating Agreement.
- 29.2. The captions and headings appearing in this Operating Agreement are inserted merely to facilitate reference and shall have no bearing upon the interpretation of the provisions hereof.
- 29.3. This Operating Agreement shall be governed by and interpreted in accordance with the laws of the United States and the State of Arizona without giving effect to any conflicting provision of the law of another state.
- 29.4. The duties and obligations established in this Operating Agreement are deemed to be independent covenants, not dependent covenants, and the obligation of any Participant to perform all of the obligations and duties to be kept and performed by it is not conditioned on the performance by the other Participants of all of the duties and obligations to be kept and performed by them.
- 29.5. This Operating Agreement may be executed in multiple counterparts, each of which shall be deemed an original.
- 29.6. It is acknowledged by the Participants that certain provisions of this Operating Agreement may conflict with certain provisions of the Co-Tenancy Agreement or cover certain matters also covered in the Co-Tenancy Agreement. The provisions of this Operating Agreement shall, to the extent of such conflicts or coverage, be deemed to supersede such provisions of the Co-Tenancy Agreement.
- 29.7. If a dispute should arise from actions taken during the performance of Operating Work, said dispute shall be resolved in accordance with Section 18 of the Co-Tenancy Agreement.
- 29.8. Exhibits attached hereto are hereby incorporated herein and by this reference made a part of this Operating Agreement.
- 30. **PROVISIONS OF CO-TENANCY AGREEMENT:** The Participants agree that all of the provisions of the Co-Tenancy Agreement made applicable to the Project Agreements, and the provisions of Section 33 (Notices) and Section 5 (Definitions) of the Co-Tenancy Agreement, shall apply to this Operating Agreement.
- 31. **TRANSMISSION SYSTEM GENERAL CONTRACT PROVISIONS:** The Transmission System General Contract Provisions attached hereto as Exhibit J are hereby made a part of this Operating Agreement.
- 32. **EXHIBIT REVISIONS**
 - 32.1. Unless otherwise noted herein, Exhibits to this Operating Agreement may be modified by the Engineering and Operating Committee if agreed to by an Engineering

and Operating Committee representative of each Participant in writing (excluding changes to Exhibit J which does not require written approval).

- 32.2. The Operating Agent shall submit each revised exhibit to the Engineering and Operating Committee for its review and approval. Within thirty (30) days after approval of such revised exhibit(s) by the Engineering and Operating Committee, Operating Agent shall file such revised exhibit(s) with FERC for approval and distribute copies thereof to each Participant.
- 32.3. The effective date of a revised exhibit shall be as determined by the Engineering & Operating Committee and is subject to FERC approval. Revised cost responsibility percentages shall be reflected in invoices following the FERC-approved effective date of the revised exhibit(s).

IN WITNESS WHEREOF, the Participants have caused this Operating Agreement to be executed as of the 30th day of April 2022.

UNITED STATES OF AMERICA

JACKLYNN
Signature GOULD Digitally signed by JACKLYNN GOULD
Date: 2022.08.23 15:38:29
+07'00'

Name: Jacklynn L. Gould, P.E.

Regional Director
Interior Region 8: Lower Colorado Basin
Bureau of Reclamation

Date Signed _____

ARIZONA PUBLIC SERVICE COMPANY

Signature Tony Tewelis DocuSigned by:
Tony Tewelis
90F2894B57744F4

Name: Tony Tewelis

Title: VP Transmission & Dist Ops

Date Signed 5/18/2022

**DEPARTMENT OF WATER AND POWER
OF THE CITY OF LOS ANGELES BY
BOARD OF WATER AND POWER COMMISSIONERS**

By signing below, the signatories attest that they have no personal, financial, beneficial, or familial interest in this contract.

APPROVED AS TO FORM AND LEGALITY
MICHAEL N. FEUER, CITY ATTORNEY


By: _____
JANISSE QUIÑONES
Chief Executive Officer and Chief Engineer

Date: _____

And: _____
CHANTE L. MITCHELL
Board Secretary

JUL 26 2022
BY Syndi Driscoll
SYNDI DRISCOLL
DEPUTY CITY ATTORNEY

NEVADA POWER COMPANY
(d/b/a/NV ENERGY)

Signature: 

Name: Josh Langdon

Title: Vice President, Transmission

Date Signed: May 18, 2022

SALT RIVER PROJECT AGRICULTURAL
IMPROVEMENT AND POWER DISTRICT

Signature: 

Name: John D. Coggins

Title: Associate General Manager & Chief Power
System Executive

Date Signed: 4/28/22

TUCSON ELECTRIC POWER COMPANY

Signature: 

Name: Erik Bakken

Title: Vice President, System Operations & Energy

Resources

Date Signed: 7/13/22

EXHIBIT A

COMPONENTS OF THE SOUTHERN TRANSMISSION SYSTEM

The SOUTHERN TRANSMISSION SYSTEM shall consist of the following Components of the Transmission System:

A. NAVAJO 500 KV SWITCHYARD

The Navajo 500 kV Switchyard, a basic breaker-and-a-half scheme, comprising:

- (i) the 500 kV busses and the structures therefor;
- (ii) the control building;
- (iii) three (3) shunt reactors;
- (iv) the termination facilities for
 - (a) two (2) sets of station service transformers,
 - (b) the Navajo-Crystal 500 kV line,
 - (c) the Navajo-Moenkopi 500 kV line,
 - (d) the Navajo-Dugas 500 kV line,
 - including, but not limited to, power circuit breakers, disconnect switches, and the structures therefor; and
 - (e) three (3) 500 kV bus reactors
- (v) other substation relays (excluding line relays).

B. NAVAJO-CRYSTAL LINE COMPENSATION

The Project Series Capacitors, Incremental Series Capacitors and shunt reactors on the Navajo 500 kV Switchyard end of the Navajo-Crystal 500 kV line including, but not limited to, the capacitors, control equipment, reactors, surge arrestors, hazard fencing, disconnects, structures and bus work from the switchyard side of the first 500 kV line dead-end tower located outside the switchyard to the attachment on the main switchyard structure.

C. NAVAJO-MOENKOPI 500 KV LINE

The Navajo-Moenkopi 500 kV line, from and including the first 500 kV line dead-end tower outside the Navajo 500 kV Switchyard to a similar tower location outside the Moenkopi Switchyard and the Navajo-Moenkopi 500 kV line right-of-way. Line protection relaying systems located at either end of the Navajo-Moenkopi 500 kV Line.

D. NAVAJO-DUGAS-MORGAN-WESTWING 500 KV LINE

1. Navajo-Dugas 500 kV Line

- a. The Navajo-Dugas 500 kV line, from and including the first 500 kV line dead-end tower outside the Navajo 500 kV Switchyard to a similar tower location outside the Dugas Switchyard and the portion of the original

Navajo-Westwing 500 kV line right-of-way associated with the Navajo-Dugas 500 kV line segment. Line protection relaying systems located at either end of the Navajo-Dugas 500 kV Line.

- b. The Project Series Capacitors and shunt reactors on the Navajo 500 kV Switchyard end of the Navajo-Dugas 500 kV line including, but not limited to, the capacitors, control equipment, reactors, surge arrestors, hazard fencing, disconnects, structures and bus work from the switchyard side of the first 500 kV line dead-end tower located outside the switchyard to the attachment on the main switchyard structure.
- c. The Project Series Capacitors and shunt reactors on the Dugas Switchyard end of the Navajo-Dugas 500 kV line including, but not limited to, the capacitors, control equipment, reactors, surge arrestors, hazard fencing, disconnects, structures and bus work from the switchyard side of the first 500 kV line dead-end tower located outside the switchyard to the attachment on the main switchyard structure.

2. Dugas-Morgan 500 kV Line

The Dugas-Morgan 500 kV line, from and including the first 500 kV line dead-end tower outside the Dugas Switchyard to a similar tower located outside the Morgan 500/230kV Substation and the portion of the original Navajo-Westwing 500 kV line right-of-way associated with the Dugas-Morgan 500 kV line segment. Line protection relaying systems located at either end of the Dugas-Morgan 500 kV Line.

3. Morgan-Westwing 500 kV Line

The Morgan-Westwing 500 kV line, from and including the first 500 kV line dead-end tower outside the Morgan 500/230 kV Substation to a similar tower located outside the Westwing 500 kV Switchyard and the portion of the original Navajo-Westwing 500 kV line right-of-way associated with the Morgan-Westwing 500 kV line segment. Line protection relaying systems located at either end of the Morgan-Westwing 500 kV Line.

E. MOENKOPI-CEDAR MOUNTAIN-YAVAPAI 500 KV LINE

- 1. The Moenkopi-Cedar Mountain 500 kV line from and including the first 500 kV line dead-end tower outside the Moenkopi Switchyard to a similar tower location outside the Cedar Mountain Switchyard and the portion of the original Moenkopi-Westwing 500 kV line right-of-way associated with the Moenkopi-Cedar Mountain 500 kV line segment. Line protection relaying systems located at either end of the Moenkopi-Cedar Mountain 500 kV Line.
- 2. The Cedar Mountain-Yavapai 500 kV line from and including the first 500 kV line dead-end tower outside the Cedar Mountain Switchyard to a similar tower

location outside the Yavapai Switchyard and the portion of the original Moenkopi-Westwing 500 kV line right-of-way associated with the Cedar Mountain-Yavapai 500 kV line segment. Line protection relaying systems located at either end of the Cedar Mountain-Yavapai 500 kV Line.

F. OTHER ASSOCIATED COMPONENTS

1. The additions to the Moenkopi Switchyard comprising:
 - (i) the additional 500 kV busses and the structures therefor;
 - (ii) the termination facilities for
 - (a) the Navajo-Moenkopi 500 kV line, and
 - (b) the Moenkopi-Cedar Mountain 500 kV line, including, but not limited to, power circuit breakers, disconnect switches, and the structures therefor;
 - (iii) the additions to the termination facilities for
 - (a) the Four Corners-Moenkopi 500 kV line, and
 - (b) the Moenkopi-Eldorado 500 kV line, including, but not limited to, power circuit breakers, disconnect switches, and the structures therefor; and
 - (iv) other substation relays (excluding line relays).
 - (v) the termination facilities for one (1) 500 kV bus reactor and the reactor itself.
2. The Project Series Capacitors on the Moenkopi Switchyard end of the Navajo-Moenkopi 500 kV line including, but not limited to, the capacitors, control equipment, hazard fencing, disconnects, structures and bus work from the switchyard side of the first 500 kV line dead-end tower located outside the switchyard to the attachment on the main switchyard structure.
3. The Project Series Capacitors and shunt reactors on the Moenkopi Switchyard end of the Moenkopi-Cedar Mountain 500 kV line including, but not limited to, the capacitors, control equipment, reactors, surge arrestors, hazard fencing, disconnects, structures, and bus work from the switchyard side of the first 500 kV line dead-end tower located outside the switchyard to the attachment on the main switchyard structure.

G. YAVAPAI SWITCHYARD

The Yavapai Switchyard, a basic ring bus scheme, comprising:

- (i) the 500 kV busses and the structures therefor;
- (ii) the termination facilities for
 - (a) two (2) 500/230 kV transformer banks,
 - (b) the Cedar Mountain-Yavapai 500 kV line, and
 - (c) the Yavapai-Westwing 500 kV line,

- including, but not limited to, power circuit breakers, disconnect switches, and the structures therefore;
- (iii) other substation relays (excluding line relays);
- (iv) common facilities; and
- (v) other facilities up to, but excluding, the connection to the high-side bushings of the two (2) 500/230 kV transformer banks.

The Yavapai Switchyard common facilities include, but are not limited to, roads, trenches and conduit for system control and power cables, station grounding grid, overhead static shield, fencing and gates, yard lighting, maintenance and control buildings, station batteries, chargers and distribution panels, station power transformers and distribution panels, remote terminal units, digital fault recorders, alarms, annunciators, public address system, communications equipment, and related land or land rights.

H. YAVAPAI-WESTWING 500 KV LINE

1. The Yavapai-Westwing 500 kV line, from and including the first 500 kV line dead-end tower outside the Yavapai Switchyard to a similar tower location outside the Westwing 500 kV Switchyard and the portion of the original Moenkopi-Westwing 500 kV line right-of-way associated with the Yavapai-Westwing 500 kV line segment. Line protection relaying systems located at either end of the Yavapai-Westwing 500 kV Line.
2. The Project Series Capacitors and shunt reactors on the Westwing 500 kV Switchyard end of the Yavapai-Westwing 500 kV line including, but not limited to, the capacitors, control equipment, reactors, surge arrestors, hazard fencing, disconnects, structures and bus work from the switchyard side of the first 500 kV line dead-end tower located outside the switchyard to the attachment on the main switchyard structure.

I. WESTWING SUBSTATION

1. The Westwing 500 kV Switchyard, a basic breaker-and-a-half scheme, comprising:
 - (i) the 500 kV busses and the structures therefore;
 - (ii) the termination facilities for
 - (a) the Yavapai-Westwing 500 kV line,
 - (b) the Morgan-Westwing 500 kV line,
 - (c) two (2) 500/230 kV transformer banks,
 - (d) one (1) 500 kV line to TEP 500/345 kV substation, and
 - (e) 500 kV bus reactor #1,
 including, but not limited to, power circuit breakers, metering transformers, surge arresters, disconnect switches, and the structures therefore;
 - (iii) other substation relays (excluding line relays);

- (iv) the control building; and
 - (v) related land and land rights.
 - (vi) the 500 kV common facilities which include grading, surfacing & fencing, yard lighting, yard grounding, trench & conduit, control and power cables, station services, control house equipment, communication, initial main bus, and additional main bus equipment
2. The two (2) Westwing Substation 1494 MVA 500/230 kV transformer banks and spare 498 MVA 500/230 kV transformer to be located within the boundaries of the Westwing 500 kV Switchyard and the equipment associated therewith including, but not limited to, foundations, structures, insulators and hardware, transformer leads from 500 kV bushings to points of termination on the attachments to the 500 kV switchyard structure, and 230 kV leads up to the points of attachment where the 230 kV lines from adjacent facilities attach to the transformer dead-end tower.
3. Westwing 230 kV Switchyard
- 3.1 The original Westwing 230 kV Switchyard (including common facilities), a basic breaker-and-a-half scheme, comprising:
- (i) the 230 kV busses and the structures therefor;
 - (ii) the termination facilities for
 - (a) two (2) 500/230 kV transformer banks,
 - (b) one (1) APS 230 kV line,
 - (c) one (1) future APS 230 kV line,
 - (d) two (2) SRP 230 kV lines, and
 - (e) two (2) SRP 230 kV lines for the use and benefit of the United States, including, but not limited to, power circuit breakers, metering transformers, disconnect switches, insulators and hardware, and the structures therefor;
 - (iii) the 230 kV leads between points of attachment on the transformer dead-end towers to the main switchyard structures, and the structures therefor;
 - (iv) the 230 kV leads up to the points of attachment where the 230 kV transmission lines attach to the main switchyard structures, and the structures therefor;
 - (v) other substation relays (excluding line relays);
 - (vi) the control building; and
 - (vii) related land or land rights.
- 3.2 The 230 kV switchyard common facilities which are described in Exhibit L-1, COMMON FACILITIES COSTS – 230 kV SWITCHYARD, attached hereto.
- 3.3 The Raceway 230 kV Interconnection comprising termination facilities for the Raceway 230 kV transmission line, including, but not limited to,

power circuit breakers, metering transformers, disconnect switches, structures, turning tower, take-off structure, insulators and associated hardware, 230 kV conductor from its point of attachment on the first tower located outside the perimeter fence to the turning tower, 230 kV leads between the turning tower and the take-off structure, and the fiber optic cable between its termination point at the patch panel on the turning tower to the control house. In addition, the termination facilities for the Raceway 230 kV Interconnection shall be deemed to include the remote terminal unit (RTU) installed pursuant to Letter Agreement No. 87-BCA-10084, dated September 3, 1987 between the United States of America, acting by and through the Western Area Power Administration, and the Arizona Public Service Company.

- 3.4 The two (2) Westwing 230/69 kV Interconnections comprising termination facilities for the two (2) Westwing 230/69 kV transformer banks, including, but not limited to, power circuit breakers, metering transformers, disconnect switches, structures, relays, turning towers, take-off structures, insulators, associated hardware, and 230 kV conductors from their point of attachment on the 230 kV bus to the first towers located outside the perimeter fence.
- 3.5 The Westwing 230 kV Switchyard Bus Split comprising two (2) bus sectionalizing breakers and one (1) 100 MVAR reactor which split the Westwing 230 kV Switchyard into two (2) switchyards.
- 4. The five (5) Westwing Tertiary Reactors used to regulate voltage in the Westwing 230kV Switchyard and the Westwing 500 kV Switchyard.

J. CEDAR MOUNTAIN SWITCHYARD

The Cedar Mountain Switchyard, a basic ring bus scheme, comprising:

- (i) the 500 kV busses and the structures therefor;
- (ii) the termination facilities for
 - (a) the Cedar Mountain-Yavapai 500 kV line,
 - (b) the Cedar Mountain-Moenkopi 500 kV line, and
 - (c) the Perrin Ranch Wind Farm 500 kV Interconnection, including, but not limited to, power circuit breakers, disconnect switches, and the structures therefor;
- (iii) other substation relays (excluding line relays); and
- (iv) common facilities.

The Cedar Mountain Switchyard common facilities include, but are not limited to, roads, trenches and conduit for system control and power cables, station grounding grid, overhead static shield, fencing and gates, yard lighting, maintenance and control buildings, station batteries, chargers and distribution

panels, remote terminal units, digital fault recorders, alarms, annunciators, public address system, communications equipment, and related land or land rights.

K. DUGAS SWITCHYARD

The Dugas Switchyard, a basic ring bus scheme, comprising:

- (i) the 500 kV busses and the structures therefor;
- (ii) the termination facilities for
 - (a) the Navajo-Dugas 500 kV line,
 - (b) the Dugas-Morgan 500 kV line, and
 - (c) the APS 500/69 kV transformer bank, including, but not limited to, power circuit breakers, disconnect switches, and the structures therefor;
- (iii) other substation relays (excluding line relays);
- (iv) common facilities; and
- (v) other facilities up to, but excluding, the high-side bushings of the 500/69 kV transformer.

Dugas Switchyard common facilities include, but are not limited to, roads, trenches and conduit for system control and power cables, station grounding grid, overhead static shield, fencing and gates, yard lighting, maintenance and control buildings, station batteries, chargers and distribution panels, station power transformers and distribution panels, remote terminal units, digital fault recorders, alarms, annunciators, public address system, communications equipment, and related land or land rights.

L. MORGAN 500/230 KV SUBSTATION

Facilities and equipment installed for the Morgan 500/230 kV Substation shall include but not be limited to:

1. Morgan 500 kV Switchyard

- (i) eight (8) 500 kV power circuit breakers; termination facilities for four (4) transmission lines: 1) the Morgan to Pinnacle Peak 500 kV transmission line; 2) the Morgan to Dugas 500 kV transmission line; and 3) the Morgan to Westwing 500 kV transmission line; and 4) the Morgan to Sun Valley 500 kV Transmission Line; and a 500/230 kV transformer; and
- (ii) five (5) position 500 kV breaker-and-a-half arrangement. One (1) 500/230 kV power transformer bay has been reserved for the future interconnection of an APS 500/230 kV transformer.

2. Morgan 230 kV Switchyard

- (i) The Morgan 230 kV Switchyard is a future switchyard that has not yet been built.

3. Morgan 500/230 kV Substation Facilities

- (i) Associated facilities, including but not limited to: site preparation including grading, Arizona Native Plant laws and plant salvage programs, drainage structures, surfacing and landscaping; ground grid; cable trench; yard lighting; AC and DC auxiliary power systems; auxiliary power cable; station lighting; main busses including foundations, structures conductor insulators and hardware; CCVT's and protective relaying; communications and supervisory control components; and site security systems; and
- (ii) All relaying, metering, control and communications equipment required for the interconnection of facilities in the Morgan 500/230 kV Substation; and
- (iii) Morgan 500/230 kV Substation common facilities include those facilities required for the Morgan 500/230 kV Substation, in general including, but not limited to: site preparation – grading, fencing, surfacing; grounding, trenching and conduit; yard lighting; control house and equipment therein (except certain terminal-related equipment); major and minor steel structures; communications and control components; substation service power facilities; water line installation; fire Protection system; security monitoring system; site retention basins; perimeter wall; landscaping; irrigation; and Power and control cables.

M. COMMUNICATION FACILITIES

All the communication facilities necessary to control the Southern Transmission System including such facilities located at the Navajo 500 kV Switchyard, the Moenkopi Switchyard, the Cedar Mountain Switchyard, the Yavapai Switchyard, the Dugas Switchyard, the Morgan 500 kV Switchyard, and the Westwing Substation, more particularly described in Exhibit K attached hereto.

EXHIBIT B**SOUTHERN TRANSMISSION SYSTEM**

<u>Component</u>	<u>Responsibility for Costs (RFC)*</u>						
	<u>SRP</u>	<u>APS</u>	<u>TEP</u>	<u>NV Energy</u>	<u>LADWP</u>	<u>United States</u>	<u>Third Parties(1)</u>
TRANSMISSION LINES							
C. Navajo Moenkopi 500 kV line	21.7%	14.0%	7.5%	11.3%	21.2%	24.3%	
D.1 Navajo Dugas 500 kV line	38.3%	24.7%	13.3%			23.7%	
D.2 Dugas Morgan 500 kV line	38.3%	24.7%	13.3%			23.7%	
D.3 Morgan Westwing 500 kV line	38.3%	24.7%	13.3%			23.7%	
E.1 Moenkopi Cedar Mtn 500 kV line	38.3%	24.7%	13.3%			23.7%	
E.2 Cedar Mtn Yavapai 500 kV line	38.3%	24.7%	13.3%			23.7%	
H.1 Yavapai Westwing 500 kV line	38.3%	24.7%	13.3%			23.7%	
<hr/>							
NAVAJO 500 kV SWITCHYARD							
A. Navajo 500 kV Switchyard	21.7%	14.0%	7.5%	11.3%	21.2%	24.3%	
B. Navajo Crystal 500 kV Line Project Series Capacitors and Shunt Reactors				26.1%	48.9%	25.0%	
D.b.1 Navajo Dugas 500 kV line Project Series Capacitors and Shunt Reactors	38.3%	24.7%	13.3%			23.7%	
<hr/>							
MOENKOPI 500 kV SWITCHYARD							
F.1 Moenkopi Termination Facilities	21.7%	14.0%	7.5%	11.3%	21.2%	24.3%	
F.2 Navajo Moenkopi 500 kV Line Project Series Capacitors	21.7%	14.0%	7.5%	11.3%	21.2%	24.3%	
F.3 Moenkopi Cedar Mountain 500 kV Line Project Series Capacitors and Shunt Reactors	38.3%	24.7%	13.3%			23.7%	
<hr/>							
YAVAPAI 500 kV SWITCHYARD							
G. Yavapai 500 kV Switchyard		100%					
<hr/>							
CEDAR MOUNTAIN 500 kV SWITCHYARD							
J. Cedar Mountain 500 kV Switchyard	25.5%	16.5%	8.9%			15.8%	33.30%

WESTWING 500 kV SWITCHYARD

I.1 Westwing 500 kV Switchyard and Common Facilities (4)	16.50%	10.64%	12.66%			10.20%	50.00%
1.ii.e 500 kV Bus Reactor 1(8)	30.64%	19.76%	10.64%	5.22%	9.78%	23.96%	
1.ii.f 500 kV Bus Reactor 2	40.0%	60.0%					
H.2 Yavapai Westwing 500 kV Line Project Series Capacitors and Shunt Reactors	38.3%	24.7%	13.3%			23.7%	

OTHER WESTWING FACILITIES

I.2 Two (2) Westwing Substation 1494 MVA 500/230 kV Transformer Banks(2)	44.2%	28.5%				27.3%	
I.4 Westwing Tertiary Reactors #1-5 and associated bus work	44.2%	28.5%				27.3%	
I.5 Westwing Tertiary Reactors #6 and associated bus work							100%

Responsibility for Costs (RFC)*

<u>Component</u>	<u>SRP</u>	<u>APS</u>	<u>TEP</u>	<u>NV Energy</u>	<u>LADWP</u>	<u>United States</u>	<u>Third Parties(1)</u>
WESTWING 230 kV SWITCHYARD							
I.3.1 RESERVED(3)							
I.3.2 Westwing 230 kV Switchyard and Common Facilities(4)	21.23%	18.88%				18.70%	41.18%
I.3.3 Raceway 230 kV Interconnection						100%	
I.3.4 Westwing 230/69 kV Interconnections (Qty 2)		100%					
I.3.5 Westwing 230 kV Switchyard Bus Split(5)	23.36%	38.42%				26.46%	11.76%

DUGAS 500 kV SWITCHYARD

K. Dugas 500 kV Switchyard		100%					
D.1.c Navajo-Dugas 500 kV Line Project Series Capacitors and Shunt Reactors	38.3%	24.7%	13.3%			23.7%	

MORGAN 500/230 kV SUBSTATION

L. Morgan 500 kV Switchyard and
500kV Common

Facility Capital Improvements	16.7%	50.0%				33.3%
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M. Morgan 230 kV Switchyard(6),
500/230 kV Transformer and 230 kV
Common Facility Capital
Improvements

100%

N. Morgan Substation Common
Facilities and Future Common

Facilities for benefit of entire 500/230 kV Substation	21.227%	45.473%				33.3%
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PARTICIPANTS RESPONSIBILITY

FOR COSTS	30.47%	24.81%	11.02%	3.55%	6.66%	23.48%
(% OF TOTAL COSTS)(7)						

(1) Third Parties shown for informational purposes only. Invoiced under separate agreements.

(2) Costs calculated from Total Cost using Original Westwing 230 kV Switchyard RFC%, not Common Facilities RFC%.

(3) Intentionally left blank

(4) Responsibility for Costs-%: Based on Functions, not cost. See Exhibit B-2 for derivation.

(5) Responsibility for Costs-%: Based on Function not cost.

(6) The Morgan 230 kV Switchyard is a future switchyard that has not been constructed.

(7) Final % of Total Cost Responsibility is weighted average of capital expenditures on NSTS.

(8) This bus reactor is a spare reactor and is not included as a Function. See CBI 15-02.

*Numbers may not add to 100% due to rounding.

Responsibility for Costs (RFC) for Operations and Maintenance charges through 12/31/2029*

<u>Component</u>	<u>SRP</u>	<u>APS</u>	<u>TEP</u>	<u>NV Energy</u>	<u>LADWP</u>	<u>United States</u>	<u>Third Parties(1)</u>
TRANSMISSION LINES							
Navajo Moenkopi 500 kV line, series capacitors, & shunt reactors	24.21%	15.62%	8.37%	12.61%	23.66%	15.53%	0.0%
Navajo Dugas 500 kV line, series capacitors & shunt reactors	43.03%	27.75%	14.94%	0.0%	0.0%	14.27%	0.0%
Dugas Morgan 500 kV line	41.30%	26.63%	14.34%	0.0%	0.0%	17.72%	0.0%
Morgan Westwing 500 kV line	41.30%	26.63%	14.34%	0.0%	0.0%	17.72%	0.0%
Moenkopi Cedar Mtn 500 kV line, series capacitors & shunt reactors	41.98%	27.07%	14.58%	0.0%	0.0%	16.37%	0.0%
Cedar Mtn Yavapai 500 kV line	41.30%	26.63%	14.34%	0.0%	0.0%	17.72%	0.0%
Yavapai Westwing 500 kV line, series capacitors & shunt reactors	43.03%	27.75%	14.94%	0.0%	0.0%	14.27%	0.0%
500 kV SWITCHYARDS							
Navajo 500 kV Switchyard	24.21%	15.62%	8.37%	12.61%	23.66%	15.53%	0.0%
Moenkopi 500 kV Switchyard	24.21%	15.62%	8.37%	12.61%	23.66%	15.53%	0.0%
Cedar Mountain 500 kV Switchyard	28.17%	18.23%	9.83%	0.0%	0.0%	10.47%	33.33%
Westwing 500 kV Switchyard (excluding bus reactor)	21.16%	13.645%	7.345%	0.0%	0.0%	7.85%	50.0%
Westwing Spare Reactor	34.43%	22.20%	11.95%	5.92%	11.08%	14.42%	0.0%
Dugas 500 kV Switchyard	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Morgan 500 kV Switchyard	16.7%	50.0%	0.0%	0.0%	0.0%	0.0%	33.3%
Yavapai 500 kV Switchyard	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Navajo to Crystal series capacitor & shunt reactor	0.0%	0.0%	0.0%	29.41%	55.09%	15.50%	0.0%
COMPOSITE RATE (Dispatch/Insurance)	33.89%	27.03%	12.21%	3.70%	6.95%	16.22%	0.0%
COMPOSITE RATE (Communications)	18.78%	40.09%	6.61%	2.45%	4.61%	27.46%	0.0%

(1) Third Parties shown for informational purposes only. Invoiced under separate agreements

*Numbers may not add to 100% due to rounding

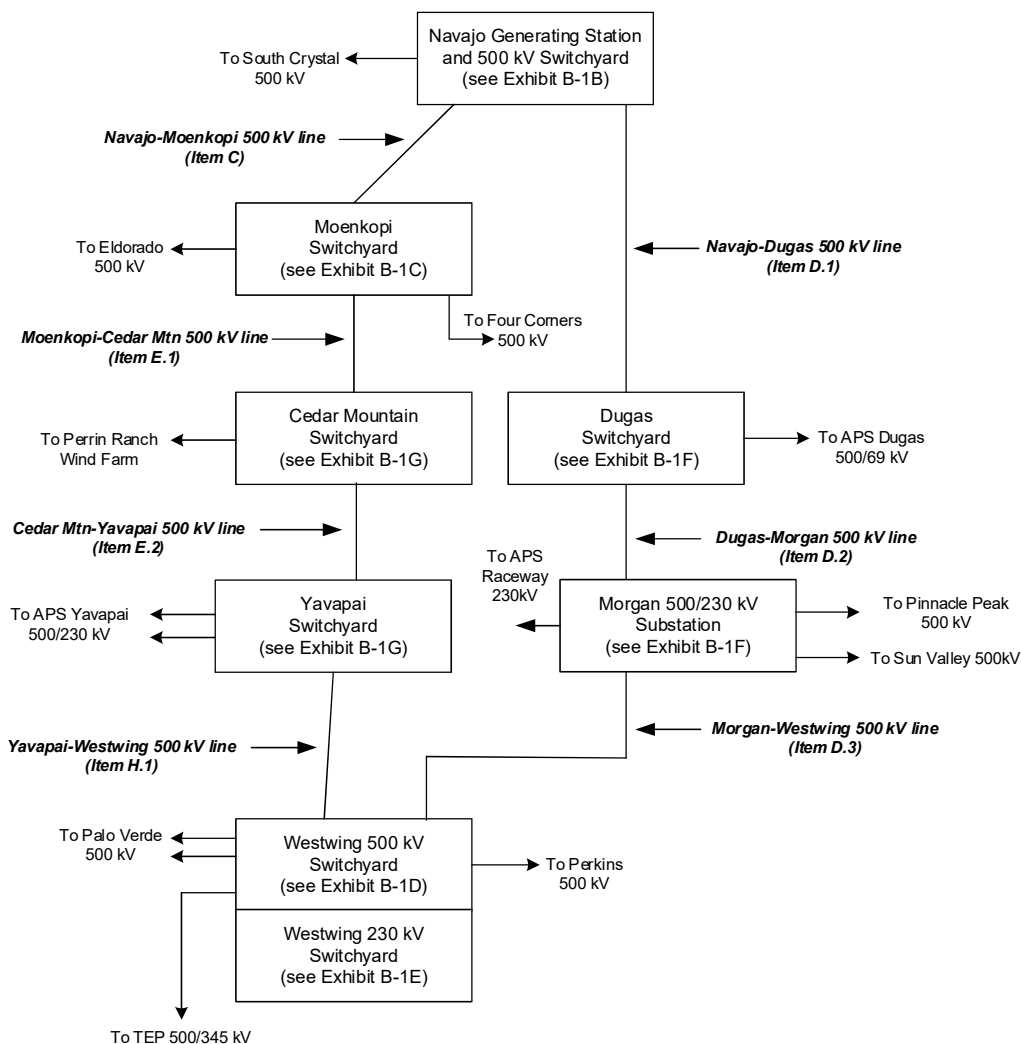
Original	May 11, 1976
Rev. 1	February 29, 1988
Rev. 2	August 26, 1994
Rev. 3	January 27, 1995
Rev. 4	July 10, 1995
Rev. 5	July 31, 1998
Rev. 6	October 1, 2001
Rev. 7	October 2, 2012
Rev. 8	April 3, 2017
Rev. 9	June 11, 2019
Rev 10	March 6, 2022

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CONTAINS CRITICAL ENERGY/ELECTRIC INFRASTRUCTURE INFORMATION (CEII). DO NOT RELEASE OR DISCLOSE PURSUANT TO 18 C.F.R. § 388.113.

EXHIBIT B – 1A SCHEMATIC OF RESPONSIBILITY FOR COSTS SOUTHERN TRANSMISSION SYSTEM

TRANSMISSION LINES



Note: Item numbers reference components listed in Exhibit B.

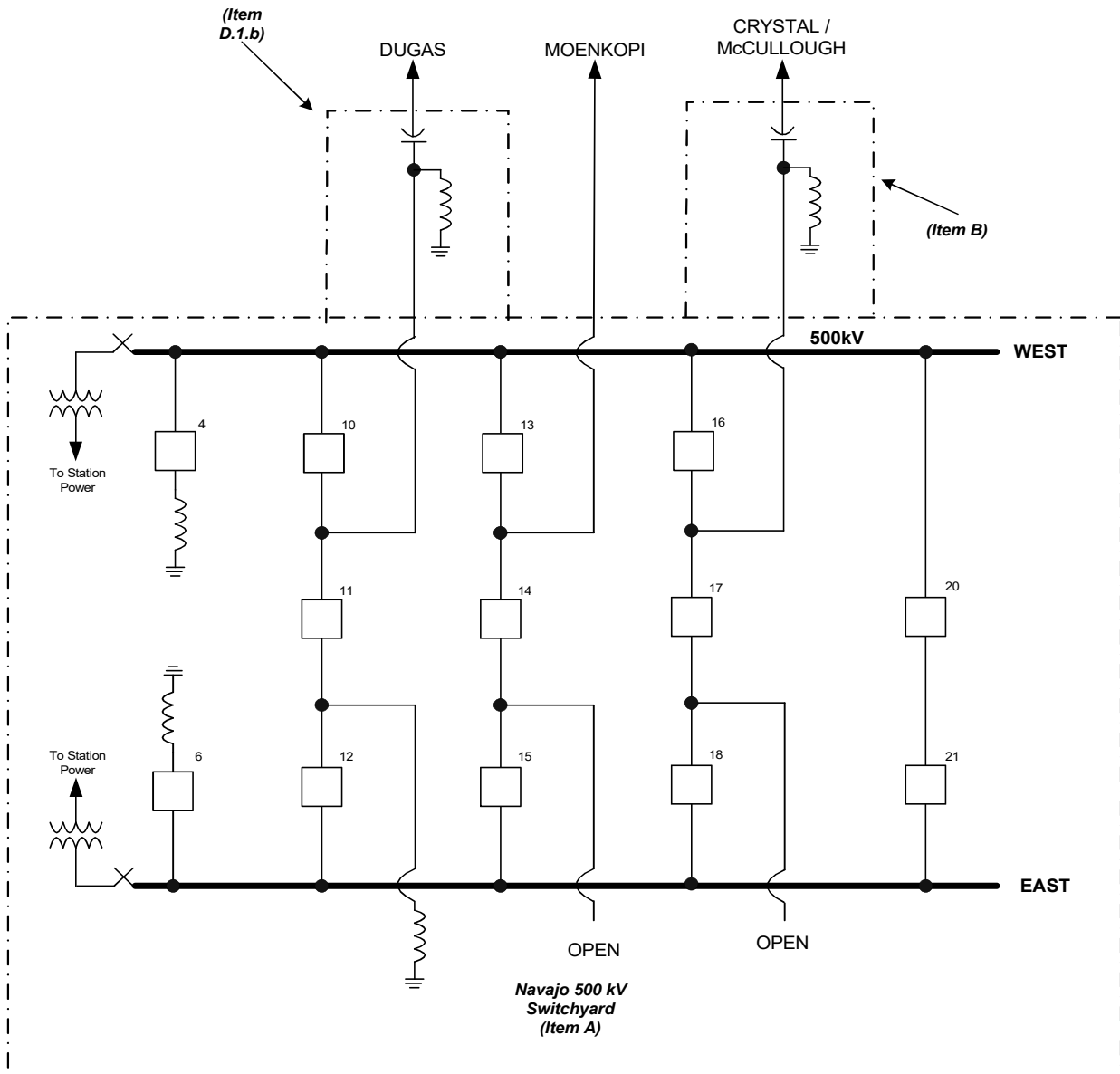
Revised 03/31/2021

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EXHIBIT B – 1B
SCHEMATIC OF RESPONSIBILITY FOR COSTS
SOUTHERN TRANSMISSION SYSTEM

NAVAJO 500KV



Legend

Note: Item numbers reference
components listed in Exhibit B.

— Defines limits for Navajo
Responsibility for Costs

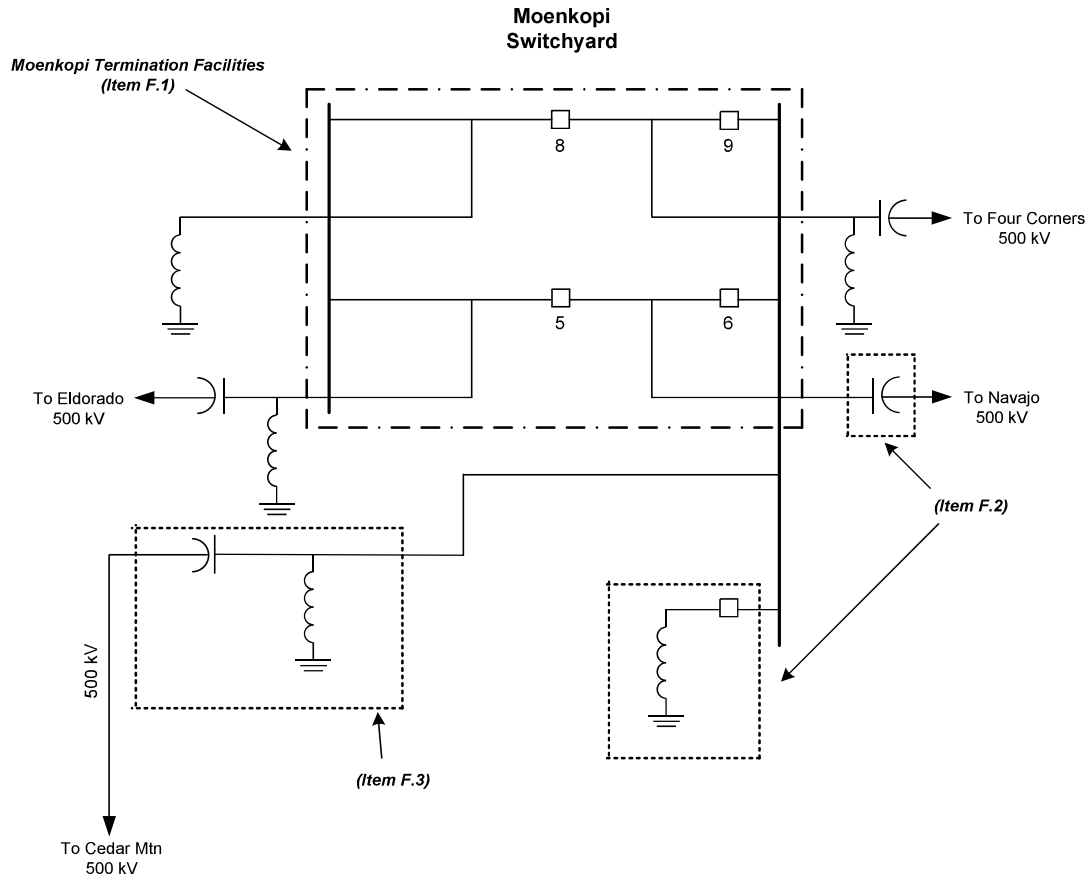
Revised 03/14/2019

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EXHIBIT B – 1C
SCHEMATIC OF RESPONSIBILITY FOR COSTS
SOUTHERN TRANSMISSION SYSTEM

MOENKOPI SWITCHYARD



Legend:

--- Defines limits for Navajo
responsibility for costs

Note: Item numbers reference
components listed in Exhibit B

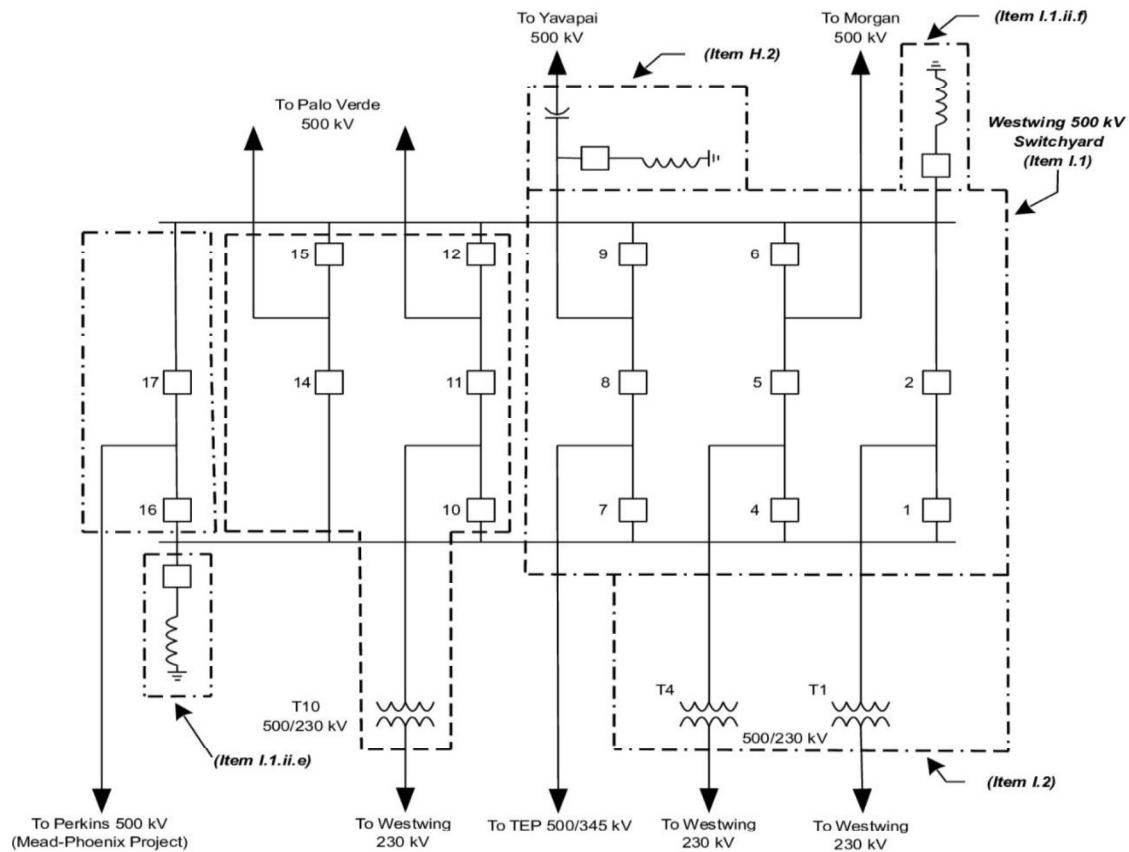
Revised 8/3/2018

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EXHIBIT B – 1D
SCHEMATIC OF RESPONSIBILITY FOR COSTS
SOUTHERN TRANSMISSION SYSTEM

WESTWING 500 kV SWITCHYARD
AND
TRANSFORMER BANKS



Legend

- ANPP Interconnection
- .-.- Mead-Phoenix Project Interconnection
- Defines limits for Navajo Responsibility for Costs

Note: Item numbers reference components listed in Exhibit B.

Revised 10/15/2015

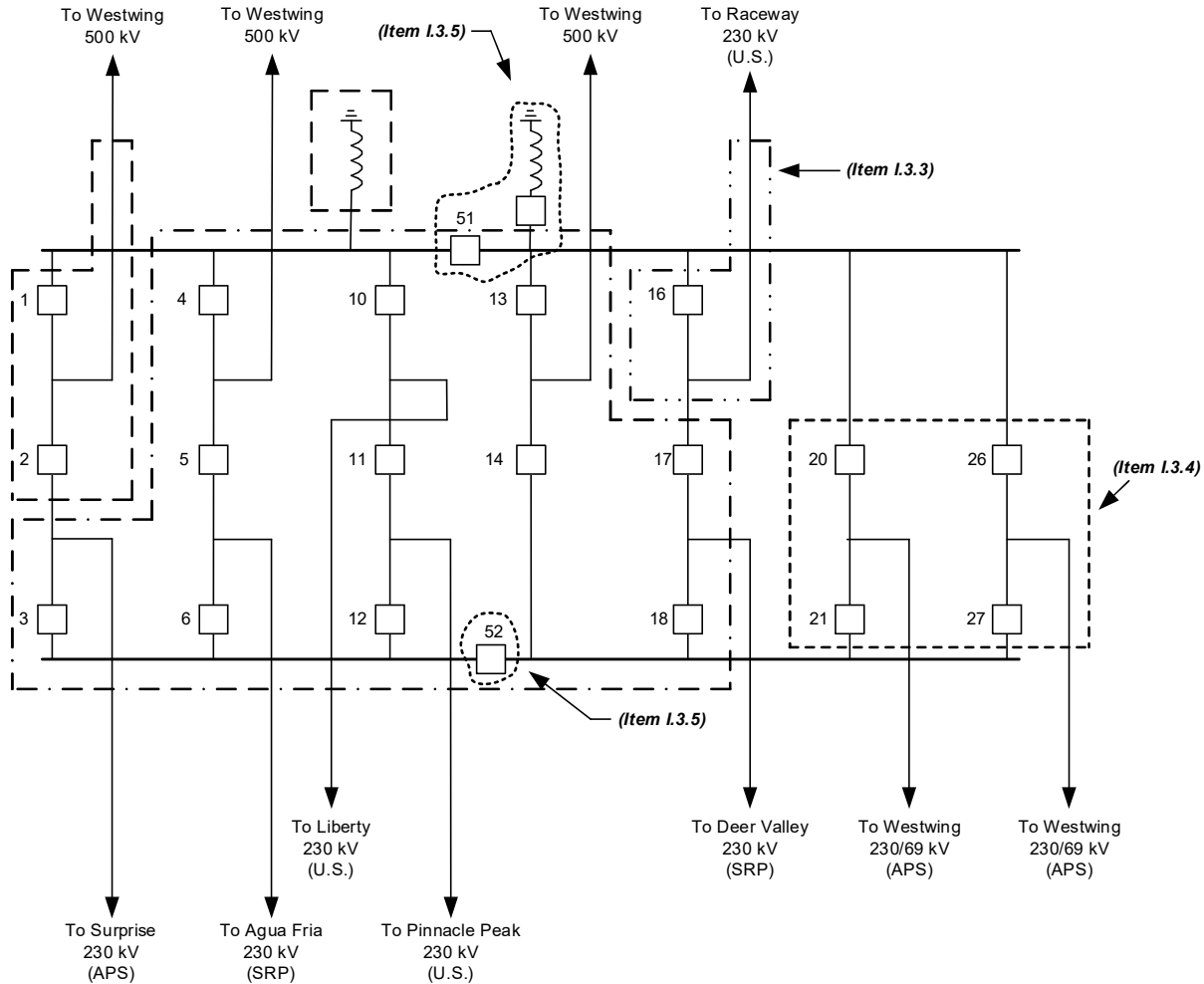
CUI//CEII

CONTAINS CRITICAL ENERGY/ELECTRIC INFRASTRUCTURE INFORMATION (CEII). DO NOT
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EXHIBIT B – 1E

SCHEMATIC OF RESPONSIBILITY FOR COSTS SOUTHERN TRANSMISSION SYSTEM

WESTWING 230 kV SWITCHYARD



Legend

- ANPP Interconnection
- . . . Raceway 230 kV Project Interconnection
- Defines limits for Navajo Responsibility for Costs
- Westwing Interconnections
- Westwing 230 kV Switchyard Bus Split

Note: Item numbers reference components listed in Exhibit B.

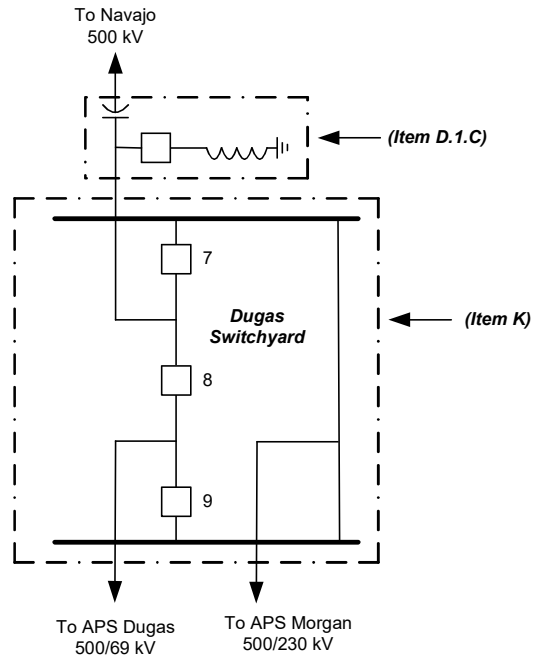
Revised 12/30/21

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EXHIBIT B – 1F SCHEMATIC OF RESPONSIBILITY FOR COSTS SOUTHERN TRANSMISSION SYSTEM

DUGAS 500 kV SWITCHYARD



Note: Item numbers reference components listed in Exhibit B.

Note: The Morgan 230 kV Switchyard is not shown because it is a future switchyard that has not been constructed.

Legend

--- Defines limits for Navajo Responsibility for Costs

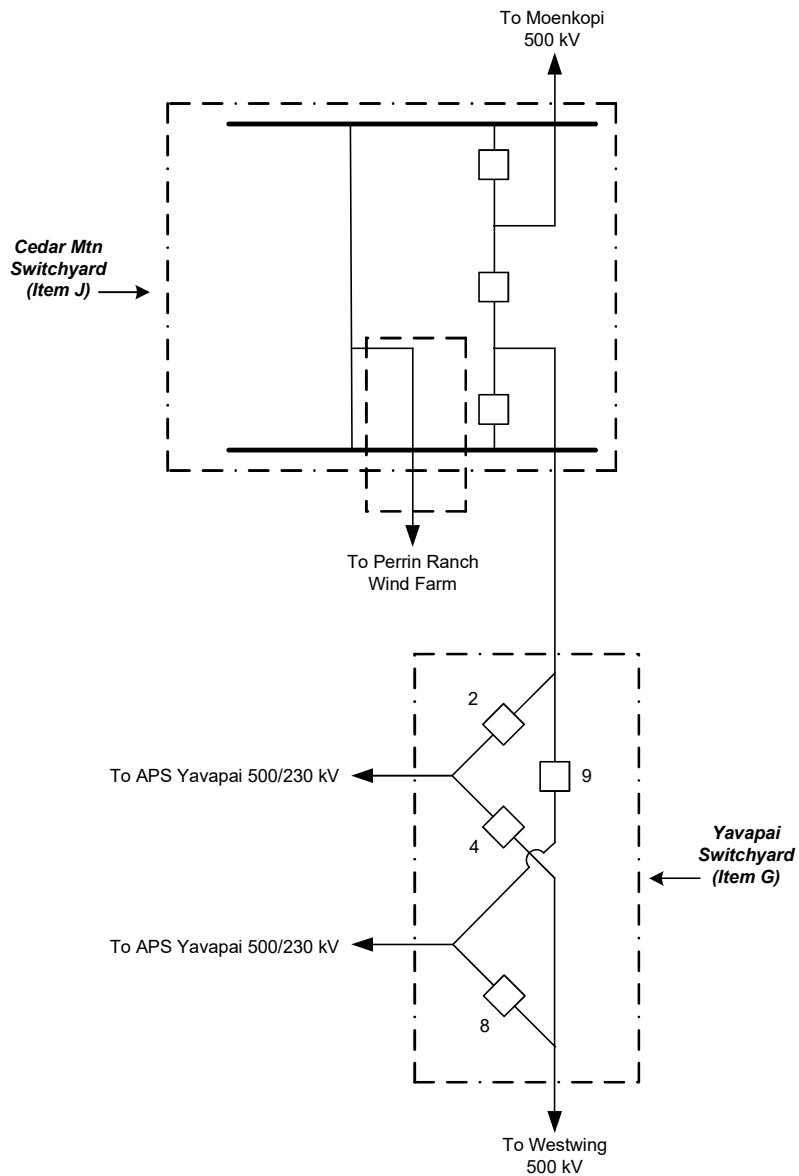
Revised 6/29/2018

CUI//CEII

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OR DISCLOSE PURSUANT TO 18 C.F.R. § 388.113.

EXHIBIT B – 1H
SCHEMATIC OF RESPONSIBILITY FOR COSTS
SOUTHERN TRANSMISSION SYSTEM

CEDAR MOUNTAIN SWITCHYARD
AND
YAVAPAI SWITCHYARD



Note: Item numbers reference
components listed in Exhibit B.

Legend

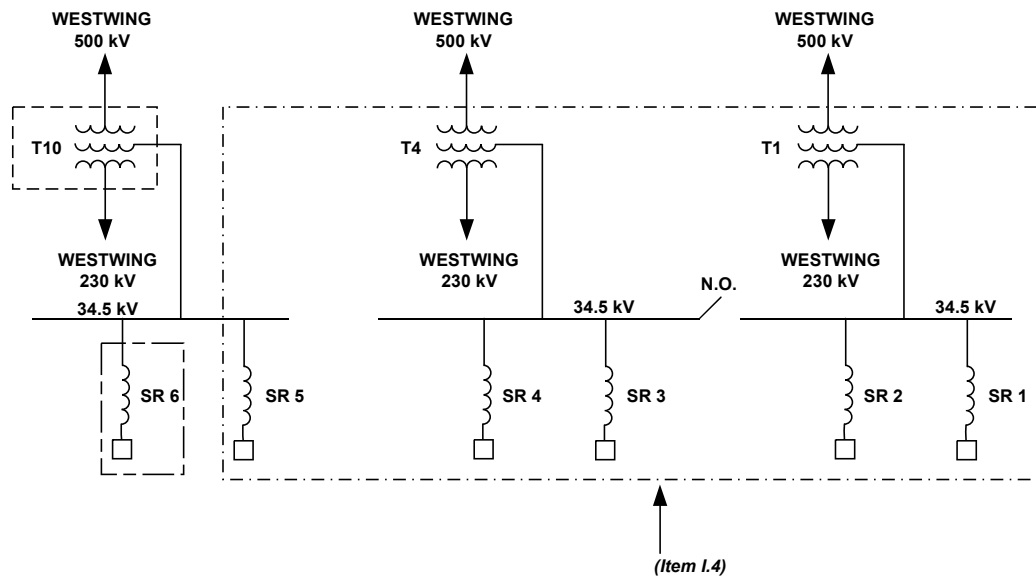
- Perrin Ranch Wind Farm 500 kV Interconnection
- . - . - Defines limits for Navajo responsibility for costs

Revised 8/03/18

CUI//CEII

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EXHIBIT B – 1I
SCHEMATIC OF RESPONSIBILITY FOR COSTS
SOUTHERN TRANSMISSION SYSTEM
WESTWING TERTIARY REACTORS



Note: Item numbers reference components listed in Exhibit B

ANPP Interconnection	-----
Mead-Phoenix Project Interconnection	-----
NSTS Facilities (3 Party)	-----
APS Interconnection	-----

Revised 02/22/2017

EXHIBIT B-2

CALCULATION OF RESPONSIBILITY FOR COSTS (RFC--%)
 WESTWING 230KV SWITCHYARD & COMMON FACILITIES
 NAVAJO PROJECT SOUTHERN TRANSMISSION SYSTEM OPERATING AGREEMENT

1. PRIOR TO RACEWAY 230KV INTERCONNECTIONORIGINAL WESTWING 230KV SWITCHYARD

COMPONENT	PARTICIPANT'S RFC--%			FUNCTIONS			
	SALT RIVER PROJECT	ARIZONA	UNITED STATES	SALT RIVER PROJECT	ARIZONA	UNITED STATES	TOTAL
500/230 KV TRANSFORMER BANKS (FROM EXHIBIT B, I.2)	44.2%	28.5%	27.3%	0.884	0.570	0.546	2.000
TRANSMISSION LINES, (SEE EXHIBIT B-1E)							
DEER VALLEY, AGUA FRIA	100.0%			2.000	0.000	0.000	2.000
SURPRISE, FUTURE		100.0%		0.000	2.000	0.000	2.000
PINNACLE PEAK, LIBERTY			100.0%	0.000	0.000	2.000	2.000
PARTICIPANT'S RFC--% = (A)/(B) =	36.1%	32.1%	31.8%	2.884 (A)	2.570 (A)	2.546 (A)	8.000 (B)

2. AFTER RACEWAY 230KV INTERCONNECTION230KV SWITCHYARD COMMON FACILITIES

COMPONENT	PARTICIPANT'S RFC--%			FUNCTIONS			
	SALT RIVER PROJECT	ARIZONA	UNITED STATES	SALT RIVER PROJECT	ARIZONA	UNITED STATES	TOTAL
500/230 KV TRANSFORMER BANKS (FROM EXHIBIT B, I.2)	44.2%	28.5%	27.3%	0.884	0.570	0.546	2.000
TRANSMISSION LINES, (SEE EXHIBIT B-1E)							
DEER VALLEY, AGUA FRIA	100.0%			2.000	0.000	0.000	2.000
SURPRISE, FUTURE		100.0%		0.000	2.000	0.000	2.000
PINNACLE PEAK, LIBERTY, RACEWAY			100.0%	0.000	0.000	3.000	3.000
PARTICIPANT'S RFC--% = (A)/(B) =	32.0%	28.6%	39.4%	2.884 (A)	2.570 (A)	3.546 (A)	9.000 (B)

Exhibit B-2
 CALCULATION OF RESPONSIBILITY FOR COSTS (RFC)
 WESTWING 230KV SWITCHYARD & COMMON FACILITIES
 NAVAJO PROJECT SOUTHERN TRANSMISSION SYSTEM OPERATING AGREEMENT

3. AFTER 230/69KV INTERCONNECTIONS
 230KV SWITCHYARD COMMON FACILITIES

PARTICIPANT'S RFC--%				FUNCTIONS			
COMPONENT	SALT RIVER PROJECT	ARIZONA	UNITED STATES	SALT RIVER PROJECT	ARIZONA	UNITED STATES	TOTAL
500/230 KV TRANSFORMER BANKS (FROM EXHIBIT B.1.2.	44.2%	28.5%	27.3%	0.884	0.570	0.546	2.000
TRANSMISSION LINES (SEE EXHIBIT B-1E)							
DEER VALLEY, AGUA FRIA	100.0%			2.000	0.000	0.000	2.000
SURPRISE, FUTURE, (2) WESTWING 230/69KV TRANSMISSION LINES		100.0%		0.000	4.000	0.000	4.000
PINNACLE PEAK, LIBERTY, RACEWAY			100.0%	0.000	0.000	3.000	3.000
PARTICIPANT'S REF--% = (A)/(B)	26.2%	41.5%	32.2%	2.884 (A)	4.570 (A)	3.546 (A)	11.000 (B)

4. AFTER WESTWING 230KV BUS SPLIT
 230KV SWITCHYARD COMMON FACILITIES

PARTICIPANT'S RFC--%					FUNCTIONS				
COMPONENT	SALT RIVER PROJECT	ARIZONA	UNITED STATES	OTHER	SALT RIVER PROJECT	ARIZONA	UNITED STATES	OTHER	TOTAL
500/230 KV TRANSFORMER BANKS (FROM EXHIBIT B.1.2.	44.2%	28.5%	27.3%		0.884	0.570	0.546		2.000
500/230 KV TRANSFORMER BANKS #3 (ANPP)				100.0%	0.000	0.000	0.000	1.000	1.000
BUS REACTORS #1				100.0%	0.000	0.000	0.000	1.000	1.000
BUS REACTORS #2	23.4%	20.8%	20.6%	35.3%	0.234	0.208	0.206	0.353	1.000
TRANSMISSION LINES (SEE EXHIBIT B-1E)									
DEER VALLEY, AGUA FRIA	100.0%				2.000	0.000	0.000	0.000	2.000
SURPRISE, (2) WESTWING 230/69KV		100.0%			0.000	3.000	0.000	0.000	3.000
PINNACLE PEAK, LIBERTY, RACEWAY			100.0%		0.000	0.000	3.000	0.000	3.000
PARTICIPANT'S REF--% = (A)/(B)=	22.3%	34.1%	26.8%	16.8%	3.118 (A)	4.778 (A)	3.752 (A)	2.353 (A)	14.000 (A)

EXHIBIT B-2

**WESTWING SWITCHYARD
CALCULATION OF RESPONSIBILITY OF COSTS FUNCTIONS**

5. After effective date of this Operating Agreement

Participant	500 kV Switchyard	230 kV Switchyard	Total Functions
Navajo Westwing Participants = X	5.0	7.6	12.6
Palo Verde-Westwing Participants = Y	3.0 ²	2.1 ³	5.1
Mead Phoenix	1.0	0.0	1.0
Morgan – PP Participants	1.0	0.0	1.0
APS	0.0	2.2	2.2
USBR	0.0	1.1	1.1
Total Functions	10.0	13.0	23.0

Westwing 500 kV Functions

Function	Navajo Westwing Participants	Morgan- Pinnacle Peak	PL-WW Participants	Mead- Phoenix	Total
Morgan	1				1
Yavapai	1				1
Palo Verde #1			1		1
Palo Verde #2			1		1
Mead-Phoenix				1	1
500/230 kV Transformer Bank 1	1				1
500/230 kV Transformer Bank 4	1				1
500/230 kV Transformer Bank 10			1		1
500/345 kV Transformer Bank 7	1				1
Reactor (APS/SRP 60/40)		1			1
Total	5	1	3	1	10

² Two of the 500 kV Palo Verde-Westwing Participant Functions are allocated based on a four party split between APS, SRP, El Paso, & PNM. The remaining Function is allocated based on a three party split between APS, SRP, and PNM.

³ One of the 230 kV Palo Verde-Westwing Participant Functions is allocated based on a four party Split between APS, SRP, El Paso, & PNM. The remaining 1.1 Functions are allocated based on a three party split between APS, SRP and PNM.

Westwing 230 kV Functions

Function	Navajo Westwing Participants	PL-WW Participants	APS	USBR	Total
Surprise	1				1
Liberty	1				1
Pinnacle Peak	1				1
Agua Fria	1				1
Deer Valley	1				1
500/230 kV Transformer Bank 1	1				1
500/230 kV Transformer Bank 4	1				1
Raceway				1	1
500/230 kV Transformer Bank 10		1			1
230/69 kV Transformer 11			1		1
230/69 kV Transformer 14			1		1
Bus reactor – 100 MVAR		1			1
Bus Reactor – 100 MVAR (Split Bus)	0.6	0.1	0.2	0.1	1
Total	7.6	2.1	2.2	1.1	13

An example of the computation of Cost Responsibility Ratios for the composite switchyards would be:

$$\text{Navajo Westwing Participants}^4 \quad \frac{X}{X+Y+Z} = \frac{12.6}{12.6+5.1+5.3} = 54.78\%$$

$$\text{Palo Verde-Westwing Participants} \quad \frac{Y}{X+Y+Z} = \frac{5.1}{12.6+5.1+5.3} = 22.17\%$$

$$\text{Mead-Phoenix} \quad \frac{Z}{X+Y+Z} = \frac{1}{12.6+5.1+5.3} = 4.35\%$$

$$\text{Morgan – PP} \quad \frac{Z}{X+Y+Z} = \frac{1}{12.6+5.1+5.3} = 4.35\%$$

$$\text{APS} \quad \frac{Z}{X+Y+Z} = \frac{2.2}{12.6+5.1+5.3} = 9.57\%$$

$$\text{USBR} \quad \frac{Z}{X+Y+Z} = \frac{1.1}{12.6+5.1+5.3} = 4.78\%$$

⁴ Individual Participant RFC = ((Westwing 500 kV ownership percentage in Exhibit A Section A.2 of Co-Tenancy Agreement) + (Westwing 230 kV ownership percentage in Exhibit A Section A.11 of Navajo Co-Tenancy Agreement)) x 54.78%

EXHIBIT B-2**WESTWING SWITCHYARD
CALCULATION OF RESPONSIBILITY OF COSTS**

Computation of Cost Responsibility Ratios for the 500 kV switchyard result in the following:

Navajo Westwing Participants ⁵	$\frac{X}{X+Y+Z} = \frac{5}{5+3+2} = 50.00\%$
Palo Verde-Westwing Participants	$\frac{Y}{X+Y+Z} = \frac{3}{5+3+2} = 30.00\%$
Mead - Phoenix	$\frac{Z}{X+Y+Z} = \frac{1}{5+3+2} = 10.00\%$
Morgan - PP	$\frac{Z}{X+Y+Z} = \frac{1}{5+3+2} = 10.00\%$

Computation of Cost Responsibility Ratios for the 230 kV switchyard result in the following:

Navajo Westwing Participants ⁶	$\frac{X}{X+Y+Z} = \frac{7.6}{7.6+2.1+3.3} = 58.46\%$
Palo Verde-Westwing Participants	$\frac{Y}{X+Y+Z} = \frac{2.1}{7.6+2.1+3.3} = 16.15\%$
APS	$\frac{Z}{X+Y+Z} = \frac{2.2}{7.6+2.1+3.3} = 16.92\%$
USBR	$\frac{Z}{X+Y+Z} = \frac{1.1}{7.6+2.1+3.3} = 8.46\%$

NOTE: Sections 1-4 of Exhibit B-2 are for historical purposes.

⁵ Individual Participant RFC = Westwing 500 kV ownership percentage in Exhibit A Section A.2 of Co-Tenancy Agreement x 50.00%

⁶ Individual Participant RFC = Westwing 230 kV ownership percentage in Exhibit A Section A.11 of Co-Tenancy Agreement x 58.46%

EXHIBIT B-3

**DERIVATION OF RESPONSIBILITY FOR COSTS (RFC %)
WESTWING 500/230 KV TRANSFORMER BANKS
SOUTHERN TRANSMISSION SYSTEM OPERATING AGREEMENT**

CALCULATION OF REPONSIBILITY FOR COSTS - % (RFC %) FOR WESTWING
500/230 KV TRANSFORMERS

(A)	FROM EDISON-NAVAJO TRANSMISSION AGREEMENT – UNITED STATES McCULLOUGH CAPACITY = 250/561 OF ITS NAVAJO POWER ENTITLEMENT (GENERATION ENTITLEMENT SHARE) ⁷	45.0%
(B)	FROM CO-TENANCY AGREEMENT – UNITED STATES’ GENERATION ENTITLEMENT SHARE ⁸	24.3%
(C)	NAVAJO GENERATION STATION = 3 GENERATING UNITS @ 750 MW EA ⁸ =	2,250
(D)	UNITED STATES’ GENERATION ENTITLEMENT SHARE ⁸ = (B) * (C) =	547
(E)	UNITES STATES’ McCULLOUGH CAPACITY = (A) * (D) =	246
(F)	UNITED STATES’ SOUTHERN TRANSMISSION SYSTEM CAPACITY = (D)-(E)=	301

	SRP	APS	<u>UNITED STATES</u>	<u>TOTAL</u>
(G) GENERATION ENTITLEMENT SHARE =	21.70%	14.00%		
(H) SOUTHERN TRANSMISSION SYSTEM CAPACITY = FIRM RIGHTS IN TRANSFORMER BANKS = (G)*(C)=	488	315	301(F)	1,104 MW (J)
(I) CALCULATED TRANSFORMER BANKS RFC-% = (H)/(J) =	44.2%	28.5%	27.3%	
(K) FROM EXHIBIT B, I.2, TRANSFORMER BANKS RFC-% =	44.2%	28.5%	27.3%	

⁷ The Edison-Navajo Transmission Agreement was subsequently terminated effective 12/23/2019

⁸ The Navajo Generating Station decommissioned and no longer part of Co-Tenancy Agreement

EXHIBIT C**ALLOCATION OF OVERHEAD EXPENSES**

Departmental overhead expenses, including but not limited to payroll, office supplies and travel (other than administrative and general expenses described in Exhibits E and F) incurred by the Operating Agent in one or more levels of supervision of employees directly engaged in Operating Work which are allocable to the Southern Transmission System shall be comprised of, but not limited to, the following:

1. A portion of the overhead expenses of the Operating Agent's System Electric Equipment Department. Such portion shall be determined by multiplying the total department maintenance overhead expenses of the Operating Agent's System Electric Equipment Department as defined in FERC Account 568 by a ratio, the numerator of which is the total maintenance payroll charged to the Southern Transmission System by the Operating Agent's System Electric Equipment personnel and the denominator of which is the total department direct payroll expenses.
2. A portion of the overhead expenses of the Operating Agent's System Overhead Lines Department. Such portion shall be determined by multiplying the total department maintenance overhead expenses of the Operating Agent's System Overhead Lines Department as defined in FERC Account 568 by a ratio, the numerator of which is the total maintenance payroll charged to the Southern Transmission System by the

Operating Agent's System Overhead Lines Department and the denominator of which is the total department direct payroll expenses.

3. A portion of the overhead expenses of the Operating Agent's System Electric Operations Department. Such portion shall be determined by multiplying the total department overhead expenses of the Operating Agent's System Electric Operations Department as defined in FERC Account 560 by a ratio, the numerator of which is the total payroll charged to the Southern Transmission System by the Operating Agent's System Electric Operation Department personnel and the denominator of which is the total department direct payroll expenses.
4. The departmental overhead expense allocations provided in Sections 1, 2 and 3 of this Exhibit C shall be allocated to the same Components of the Southern Transmission System as the direct payroll charges upon which the overhead expenses are allocated.
5. The Operating Agent's company organizational titles referred to in this Exhibit C are subject to change during the term of this Operating Agreement.

EXHIBIT D**PAYROLL TAX RATIO**

The Payroll Tax Ratio set forth below shall be applied to the labor expense portion of the Southern Transmission System operation and maintenance expenses, to the Operating Agent's direct labor charges incurred in effecting Capital Improvements, and to the labor expenses included in the Operating Agent's supervisory and administrative and general expense accounts. Estimated and actual Payroll Tax Ratios shall be determined, adjusted and used in the manner set forth as follows:

$$\text{Payroll Tax Ratio} = T/P$$

Where: T = The Operating Agent's payroll tax expenses.

P = The Operating Agent's total labor distributed including accruals.

The following example sets forth the method to be employed by the Operating Agent to determine the Payroll Tax Ratio:

EXAMPLE COMPUTATIONOF PAYROLL TAX RATIO(Based on Operating Agent's 1972 Expenses)

Total Payroll Taxes:

F.I.C.A.	\$ 1,543,360
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F.U.T.A.	76,296
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S.U.I.	<u>47,365</u>
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Total Payroll Taxes	<u>\$ 1,667,021</u>
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Total labor charged to operation and maintenance,

construction and miscellaneous general ledger

accounts	<u>\$44,502,733</u>
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Payroll Tax Ratio:

$\$1,677,021 \div \$44,502,733 =$	<u>3.746%</u>
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EXHIBIT E
BENEFITS RATIO

The Benefits Ratio set forth below shall be applied to the labor expense portion of the Southern Transmission System operations and maintenance expenses, to the Operating Agent's direct labor charges incurred in effecting Capital Improvements, and to the labor expenses included in the Operating Agent's supervisory and administrative and general expense accounts. Estimated and actual Benefits Ratios shall be determined, adjusted and used in the manner set forth as follows:

$$\text{Benefits Ratio} = B/L$$

Where: B = The Operating Agent's total system employee pensions and benefits (as defined in FERC Account 926), including payroll taxes and Workers' Compensation expense on labor charged to employee pensions and benefits.

L = The Operating Agent's total labor distributed including accruals less labor charged to employee pensions and benefits.

The following example sets forth the method to be employed by the Operating Agent to determine the Benefits Ratio:

EXAMPLE COMPUTATIONOF BENEFITS RATIO(Based on Operating Agent's 1972 Expenses)

	<u>Labor</u>	<u>Total</u>
<u>Pensions and Benefits</u>		
Employee Pensions and Benefits	<u>\$ 624,964</u>	\$ 5,590,439
Payroll Taxes @ 3.746% of labor		
(See Example in Exhibit D)		23,411
Workers' Compensation @ 1.204% of labor (See		
Example in Exhibit F)		<u>7,525</u>
Total Pensions and Benefits		<u>\$ 5,621,375</u>
<u>Labor Base</u>		
Labor charged to operation and maintenance,		
construction and miscellaneous general ledger		
accounts		\$44,502,733
Less total labor charged to Pensions and Benefits		
		<u>624,964</u>
Total applicable labor		<u>\$43,877,769</u>
Benefits Ratio:		
$\$5,621,375 \div \$43,877,769 =$		<u>12.811%</u>

EXHIBIT F**WORKERS' COMPENSATION RATIO**

The Workers' Compensation Ratio to be applied to the labor expense portion of the Southern Transmission System operation and maintenance expenses, to the Operating Agent's direct labor charges incurred in effecting Capital Improvements, and to the labor expenses included in the Operating Agent's supervisory and administrative and general accounts shall be determined annually on the basis of the Operating Agent's preceding year's expenses as set forth herein unless otherwise agreed to by the Participants. The Workers' Compensation Ratio will be adjusted to actual at year-end and the adjusted ratio used in preparation of a revised billing to Participants.

$$\text{Workers' Compensation Ratio} = I/P$$

Where: I = The Operating Agent's total system compensation insurance premiums and accruals for self-insurance charges to FERC Account 925.

P = The Operating Agent's total labor paid and accrued.

WORKERS' COMPENSATION RATIO

EXAMPLE COMPUTATION

(Based on Operating Agent's 1972 Expenses)

	<u>Total</u>
Workers' Compensation premiums, payments and accruals as defined in FERC Account 925	<u>\$ 534,767</u>
<u>Labor Base</u>	
Total labor in operations and maintenance, construction and miscellaneous general ledger accounts	\$44,502,733
Less Labor charged to Compensation Account	<u>91,905</u>
Total applicable labor	<u>\$44,410,828</u>
Workers' Compensation Ratio:	
$\$534,767 \div \$44,410,828 =$	<u>1.204%</u>

EXHIBIT G**OPERATION AND MAINTENANCE A & G RATIO**

The Operation and Maintenance A & G Ratio shall be the percentage computed by dividing (i) the sum of (a) the total amounts charged to FERC Accounts 920 and 921 multiplied by the O & M Ratio computed in accordance with Exhibit I hereto, (b) the total amounts charged to FERC Accounts 923 and 935 (excluding maintenance costs of the Microwave System), (c) the product of the portion of labor charged included within (a) and (b) above multiplied by the Payroll Tax Ratio computed in accordance with Exhibit D hereto, (d) the product of the labor charges included within (a) and (b) above multiplied by the Benefits Ratio computed in accordance with Exhibit E hereto, and (e) the product of the labor charges included within (a) and (b) above multiplied by the Workers' Compensation Ratio computed in accordance with Exhibit F hereto, less (f) that portion of the administrative and general expense charged to FERC Accounts 920 and 921 allocable to contract operations and maintenance for the Southern Transmission System by (ii) the total labor charged to the Operating Agent's system operations and maintenance less the labor charged to administrative and general expenses (excluding maintenance costs of the Microwave System). The following example sets forth the method to be employed by the Operating Agent to determine the Operation and Maintenance A & G Ratio:

OPERATION AND MAINTENANCE A & G RATIOEXAMPLE COMPUTATION

(Based on Operating Agent's 1972 Expenses)

	<u>Labor</u>	<u>Total</u>
Administrative and General Salaries charged to FERC Account 920	\$ 2,522,177	\$ 2,522,177
Office Supplies and Expenses charged to FERC Account 921		<u>936,388</u>
Total	<u>\$ 2,522,177</u>	<u>\$ 3,458,565</u>
Line 7, multiplied by O & M Ratio @ 41.421% (See Example in Exhibit "I")	\$ 1,044,711	\$ 1,432,572
FERC Account 923		431,901
FERC Account 935 (Excluding maintenance costs of the Microwave System)	<u>297,340</u>	<u>631,645</u>
Subtotal	<u>\$ 1,342,051</u>	<u>\$ 2,496,118</u>
Payroll Taxes @ 3.746% (See Example in Exhibit "D") on labor charges shown between lines 10 and 11 above		50,273
Pensions and Benefits @ 12.811% (See Example in Exhibit "E") on labor charges shown between lines 10 and 11 above		171,930
Workers' Compensation @ 1.204% (See Example in Exhibit "F") on labor charges shown between lines 10 and 11 above		16,158
Less that portion of A & G allocable to Contract Operation and Maintenance for the Southern Transmission System		<u>0</u>
Total administrative and general expense allocable to operations and maintenance		<u>\$ 2,734,479</u>
<u>Labor Base</u>		
Labor charged to system operations and maintenance		\$15,696,110
Less Labor charged to administrative and general expense (excluding maintenance labor costs of the Microwave System)		<u>2,479,223</u>
Labor Base		<u>\$13,216,887</u>
Operation and Maintenance A & G Ratio for 1972:		
\$2,734,479 ÷ \$13,216,887 =		<u>20.689%</u>

EXHIBIT H**CAPITAL IMPROVEMENTS A & G RATIO**

The Capital Improvements A & G Ratio shall be the percentage computed by dividing (i) the amount equal to (A) the sum of (a) the total amounts charged to FERC Accounts 920 and 921 multiplied by the Construction Ratio computed in accordance with Exhibit I hereto, (b) the product of the portion of labor charges included in (a) above multiplied by the sum of the Payroll Tax Ratio, the Benefits Ratio and the Workers' Compensation Ratio less (B) the portion of administrative and general expenses charged to FERC Accounts 920 and 921 allocable to contract construction for the Southern Transmission System by (ii) the total labor in construction accounts (exclusive of overheads).

The following example sets forth the method to be employed by the Operating Agent to determine the Capital Improvements A & G Ratio:

CAPITAL IMPROVEMENTS A & G RATIOEXAMPLE COMPUTATION

(Based on the Operating Agent's 1972 Expenses)

	<u>Labor</u>	<u>Total</u>
Administrative and General Salaries charged to FERC Account 920	\$2,522,177	\$2,522,177
Office Supplies and Expenses charged to FERC Account 921		<u>936,388</u>
Total	<u>\$2,522,177</u>	<u>\$3,458,565</u>
Line 7 multiplied by Construction Ratio @ 45.165% (See Example in Exhibit I)	<u>\$1,139,141</u>	\$1,562,061
Payroll Taxes @ 3.746% (See Example in Exhibit D) on labor charges shown above		42,672
Pensions and Benefits @ 12.811% (See Example in Exhibit E) on labor charges shown above		145,935
Workers' Compensation @ 1.204% (See Example in Exhibit F) on labor charges shown above		<u>13,715</u>
Total administrative and general expense allocable to construction		\$1,764,383
Less that portion allocable to contract construction for the Southern Transmission System		<u>0</u>
Total A & G Expense plus pensions and benefits allocable to construction		<u>\$1,764,383</u>
Construction labor base		<u>\$14,200,724</u>
Capital Improvements A & G Ratio for 1972: \$1,764,383 ÷ \$14,200,724 =		<u>12.425%</u>

EXHIBIT I**O & M RATIO AND CONSTRUCTION RATIO**

The O & M Ratio shall be applied to the amounts chargeable to FERC Accounts 920 and 921 for the purpose of determining one component in the computation of the Operations and Maintenance A & G Ratio as provided in Exhibit G hereto.

$$\text{O \& M Ratio} = \text{O/L}$$

Where: O = The Operating Agent's total labor charged to operation and maintenance accounts, less labor chargeable to FERC Accounts 920 through 932.

L = The Operating Agent's total labor distributed, including accruals, less labor charged to FERC Accounts 920 through 932.

The Construction Ratio set forth below shall be applied to the amounts chargeable to FERC Accounts 920 and 921 for the purpose of determining one component in the computation of the Capital A & G Ratio as provided in Exhibit H hereto.

$$\text{Construction Ratio} = \text{C/L}$$

Where: C = The Operating Agent's total labor in construction accounts.

L = The Operating Agent's total labor distributed, including accruals, less labor chargeable to FERC Accounts 920 through 932.

The following example sets forth the method to be employed by the Operating Agent to determine the O & M Ratio and the Construction Ratio:

O & M RATIO AND CONSTRUCTION RATIOEXAMPLE COMPUTATION

(Based on the Operating Agent's 1972 Electric Expenses)

Total Labor in Operation and Maintenance Accounts		
	\$15,696,110	
Less: Labor charged to A & G FERC Accounts 920 through 932, inclusive	<u>2,672,578</u>	
Net Labor in O & M Accounts	\$13,023,532	
Total Labor charged to General Ledger Accounts	4,217,335	
Total Labor in Construction Accounts	<u>14,200,724</u>	
Total Labor Base	<u>\$31,441,591</u>	
Ratio of Net O & M Labor to Total Labor:	<u>\$13,023,532</u>	
	\$31,441,591	= 41.421%
Ratio of Construction Labor to Total Labor:	<u>\$14,200,724</u>	
	\$31,441,591	= 45.165%

Note: All labor figures include loading for allowed time.

EXHIBIT J**TRANSMISSION SYSTEM****GENERAL CONTRACT PROVISIONS**

1. **OFFICIALS NOT TO BENEFIT:** No Member of or Delegate to Congress or Resident Commissioner shall be admitted to any share or part of this agreement or to any benefit that may arise herefrom, but this restriction shall not be construed to extend to this agreement if made with a corporation or company for its general benefit.
2. **COVENANT AGAINST CONTINGENT FEES:** The non-Federal Participants warrant that no person or selling agency has been employed or retained to solicit or secure this agreement upon an agreement or understanding for a commission, percentage, brokerage, or contingent fee, excepting bona fide employees or bona fide established commercial or selling agencies maintained by a non-Federal Participant for the purpose of securing business. For breach or violation of this warranty the United States shall have the right to annul this agreement without liability or in its discretion to deduct from the payments to be made hereunder, or otherwise recover the full amount of such commission, percentage, brokerage or contingent fee.
3. **EQUAL OPPORTUNITY CLAUSE:**
 - 3.1 Except as provided in Title 42 U.S.C. §2000-e-2 (i) and in keeping with any obligation undertaken by any of the non-Federal Participants, in this section referred to as the Contractor, or their assigns, pursuant to the terms of said Title 42 U.S.C. §2000-e-2(i) to give preference for employment to qualified Indians for work on or near an Indian Reservation, during the performance of this agreement, the Contractor agrees as follows:
 - 3.1.1 The Contractor will not discriminate against any employee or applicant for employment because of race, color, religion, sex or national origin. The Contractor will take affirmative action to insure that applicants are employed, and that employees are treated during employment, without regard to their race, color, religion, sex or national origin. Such action shall include, but not be limited to the following: Employment, upgrading, demotion or transfer; recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The Contractor agrees to post in conspicuous places available to employees and applicants for employment, notices to be provided by the Contracting Officer setting forth the provisions of this equal opportunity clause.
 - 3.1.2 The Contractor will, in all solicitations, or advertisements for employees placed by or on behalf of the Contractor, state that all

qualified applications will receive consideration for employment without regard to race, color, religion, sex or national origin.

- 3.1.3 The Contractor will send to each labor union or representative of workers with which it has a collective bargaining agreement or other contract or understanding, a notice to be provided by the agency contracting officer advising the labor union or workers' representative of the Contractor's commitments under this equal opportunity clause, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.
- 3.1.4 The Contractor will comply with all provisions of Executive Order No. 11246 of September 24, 1965, and of the rules, regulations and relevant orders of the Secretary of Labor.
- 3.1.5 The Contractor will furnish all information and reports required by Executive Order No. 11246 of September 24, 1965, and by the rules, regulations and orders of the Secretary of Labor, or pursuant thereto, and will permit access to its books, records and accounts by the contracting agency and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations and orders.
- 3.1.6 In the event of the Contractor's non-compliance with this equal opportunity clause, or with any of the said rules, regulations or orders, this agreement may be cancelled, terminated or suspended in whole or in part, and the Contractor may be declared ineligible for further government contracts in accordance with procedures authorized in Executive Order No. 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in Executive Order No. 11246 of September 24, 1965, or as otherwise provided by law.
- 3.1.7 The Contractor will include the provisions of Sections 3.1.1 through 3.1.7 hereof in every subcontract or purchase order unless exempted by rules, regulations or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order No. 11246 of September 24, 1965, so that such provisions will be binding upon each subcontractor or vendor. The Contractor will take such action with respect to any subcontract or purchase order as the contracting agency may direct as a means of enforcing such provisions; provided, however, that, in the event the Contractor becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the contracting agency, the Contractor may request the United States to enter into such litigation to protect the interests of the United States.

4. WORK HOURS ACT OF 1962:

4.1 This agreement, to the extent that it is of a character specified in the Contract Work Hours Standards Act (Public Law 87-581, 76 Stat. 357) and is not covered by the Walsh-Healey Public Contracts Act (41 U.S.C. §§ 35-45), is subject to the following provisions and to all other provisions and exceptions of said Contract Work Hours Standards Act:

4.1.1 No Contractor or subcontractor contracting for any part of the contract work which may require or involve the employment of laborers or mechanics shall require or permit any laborer or mechanic in any workweek in which he is employed on such work, to work in excess of eight (8) hours in any calendar day or in excess of forty (40) hours in any workweek unless such laborer or mechanic receives compensation at a rate not less than one and one-half times his basic rate of pay for all hours worked in excess of eight (8) hours in any calendar day or in excess of forty (40) hours in such workweek, whichever is the greater number of overtime hours.

4.1.2 In the event of any violation of the provisions of Section 4.1.1 hereof, the Contractor and any subcontractor responsible for such violation shall be liable to any affected employee for his unpaid wages. In addition, such Contractor or subcontractor shall be liable to the United States for liquidated damages. Such liquidated damages shall be computed, with respect to each individual laborer or mechanic employed in violation of the provisions of Section 4.1.1 hereof, in the sum of Ten Dollars (\$10.00) for each calendar day on which such employee was required or permitted to work in excess of eight (8) hours or in excess of forty (40) hours in a workweek without payment of the required overtime wages.

4.1.3 The Secretary of Labor may withhold, or cause to be withheld, from any monies payable on account of work performed by the Contractor or subcontractor, the full amount of wages required by this agreement, and such sums as may administratively be determined to be necessary to satisfy any liabilities of such Contractor or subcontractor for liquidated damages as provided in Section 4.1.2 hereof.

4.1.4 The Contractor shall require the foregoing Sections 4.1.1, 4.1.2, 4.1.3 and 4.1.4 to be inserted in all subcontracts.

5. EXAMINATION OF RECORDS: The non-Federal Participants agree that the Comptroller General of the United States, or any of his duly authorized representatives, shall, until the expiration of three (3) years after final payment under the Project Agreements, have access to and the right to examine any directly pertinent books,

documents, papers and records of the non-Federal Participants involving transactions related to this agreement.

6. ASSIGNMENT OF CLAIMS:

6.1 Pursuant to the provisions of the Assignment of Claims Act of 1940, as amended (31 U.S.C. § 203, 41 U.S.C. § 15), if this agreement provides for payments aggregating \$1,000 or more, claims for monies due or to become due any non-Federal Participant from the Government under this agreement may be assigned to a bank, trust company, or other financial institution, including any Federal lending agency, and may thereafter be further assigned and reassigned to any such institution. Any such assignment or reassignment shall cover all amounts payable under this agreement and not already paid, and shall not be made to more than one party, except that any such assignment or reassignment may be made to one party as agent or trustee for two or more parties participating in such financing. Unless otherwise provided in this agreement, payments to an assignee of any monies due or to become due under this agreement shall not, to the extent provided in said Act, as amended, be subject to reduction or setoff. (The preceding sentence applies only if this agreement is made in time of war or national emergency as defined in said Act and is with the Department of Defense, the General Services Administration, the Atomic Energy Commission, the National Aeronautics and Space Administration, the Federal Aviation Agency, or any other department or agency of the United States designated by the President pursuant to Clause 4 of the proviso of Section I of the Assignment of Claims Act of 1940, as amended by the Act of May 15, 1951, 65 Stat. 41.)

6.2 In no event shall copies of this agreement or of any plans, specifications, or other similar documents relating to work under this agreement, if marked "Top Secret," "Secret," or "Confidential," be furnished to any assignee of any claim arising under this agreement or to any other person not entitled to receive the same. However, a copy of any part or all of this agreement so marked may be furnished, or any information contained therein may be disclosed, to such assignee upon the prior written authorization of the Contracting Officer.

7. CONVICT LABOR: In connection with the performance of work under this agreement, the non-Federal Participants agree not to employ any person undergoing sentence of imprisonment at hard labor.

8. AGREEMENT SUBJECT TO COMPACTS, ACTS AND TREATY: This Agreement is made upon the express condition and with the express understanding that all rights hereunder shall be subject to and controlled by the applicable provisions of the Colorado River Compact dated November 24, 1922, and proclaimed by the President of the United States June 25, 1929, the Boulder Canyon Project Act approved December 21, 1928, the Boulder Canyon Project Adjustment Act of July 19, 1940, the Upper Colorado River Basin Compact dated October 11, 1948, and the Mexican Water Treaty of February 3, 1944.

9. CONTINGENT UPON APPROPRIATIONS OR ALLOTMENT OF FUNDS. The expenditure or advance of any money or the performance of any obligation of the United States under this Contract shall be contingent upon appropriation or allotment of funds. Absence of appropriation or allotment of funds shall not relieve the Contractor from any obligations under this Contract. No liability shall accrue to the United States in case funds are not appropriated or allotted.

EXHIBIT K**SOUTHERN TRANSMISSION COMMUNICATION SYSTEM**
SOUTHERN TRANSMISSION SYSTEM

1. **SYSTEM DESCRIPTION:** The Southern Transmission Communication System will consist of 1) the backbone microwave system, and 2) the multiplex system. It shall utilize electronic stations on APS's Communication system.

- 1.1 **BACKBONE RF SYSTEM DESCRIPTION:**

The backbone RF System will include the following: i) RF microwave equipment; ii) all ancillary equipment, including but not limited to DSX cross-connects and power supplies; iii) supervisory alarm and control system; iv) auxiliary power units, fuel tanks, batteries, battery chargers and associated equipment; v) buildings and associated electrical wiring, lighting, and air conditioning equipment; vi) all tower structures, antennas, coaxial cable or waveguide, mounting brackets, and associated equipment; vii) communication site property including acquisition, leveling, grading, fencing and other required improvements; viii) roads required for communication site access; ix) power lines required for station power; and x) any other material and equipment which may be required to implement the backbone RF system.

- 1.2 **MULTIPLEX SYSTEM DESCRIPTION:**

The Multiplex System will include the following: i) all voice channel equipment including channel banks, drop and insert units and signal termination equipment; ii) all higher order multiplex equipment including M13's, DACS' or similar equipment; iii) relaying equipment, either digital or tone.

2. **DETERMINATION OF MAINTENANCE COSTS AND AD VALOREM TAXES:**

- 2.1 **MAINTENANCE COSTS:** Maintenance costs chargeable to the Southern Transmission Communication System shall be the percentage of APS's annual total backbone RF and Multiplex Systems maintenance charges as collected by APS and determined by dividing the Construction Cost of the RF & Multiplex Systems, including Capital Improvements, by the total capital costs of APS's RF & Multiplex Systems, including the capital cost of the RF & Multiplex Improvements thereto. Such capital costs are to be those charged by APS, less any capital costs for telemeters, supervisory control equipment charged to such accounts. This percentage is to be estimated at the beginning of each calendar year and used for monthly billings in accordance with this Exhibit K. Monthly billings will be adjusted to the annual percentage as soon as practicable after year end data becomes available.

- 2.2 AD VALOREM TAXES: Ad valorem taxes payable by APS on the Southern Transmission Communication System, including Capital Improvements thereto, shall be billed by APS at least ten (10) days prior to the due date for such taxes, and payments shall be due from the Participants three (3) days prior to such due date.

3. MULTIPLEX CHANNELS:

The capacity of the Southern Transmission Communication System is one (1) DS3 which equates to twenty-eight (28) DS1's. A DSI consists of twenty-four (24) voice channels. The DSI's are allocated as follows:

- 3.1 SOUTHERN TRANSMISSION COMMUNICATION SYSTEM: The Operating Agent of the Southern Transmission System shall have the right to use the following number of DS1's coincidental to the performance of Operating Work the Southern Transmission System:
- | | | |
|-------|-------------------------------------|---|
| 3.1.2 | Southern Transmission System | 1 |
| 3.1.3 | Southern Transmission System spares | 1 |
- 3.2 WESTERN TRANSMISSION SYSTEM: The Operating Agent of the Western Transmission System shall have the right to use one (1) DS1 coincidental to the performance of Operating Work of the Western Transmission System
- 3.3 PARTICIPANT CHANNELS: The remaining unused DS1's are available for Participant Private use with the understanding that the requirements of the Southern Transmission System shall supersede Participant use if necessary. Participant private channels will be allocated based on percent ownership of the Southern Transmission System.

A Participant may use more than their allotted share of channels until the spare DS1's are completely allocated. At that time, Participant(s) will be required to relinquish us of those channels not specifically allocated to them. When a Participant requires additional channels, they must submit a request to APS, who will supply the additional channel(s) at the Participant(s) sole cost of materials and installation.

4. FUTURE MULTIPLEX VOICE CHANNELS:

Future DS1 additions will be available to the Participants up to the expansion capacity of the microwave radios, availability of frequencies and excess capacity on the portion of the system that utilizes the APS system. Capital costs of the expansion and future maintenance costs will be divided on a percentage basis among the Participants that benefit from the upgrade.

5. ALLOCATION OF MAINTENANCE COSTS AND AD VALOREM TAXES:

- 5.1 **MAINTENANCE COSTS:** Annual maintenance charges and ad valorem taxes shall be allocated to the Participants based on channel usage in the manner provided in this Section 5. It is contemplated the requirements for voice channels for the Transmission System and the individual Participants will vary from time to time with consequent variation in associated Construction Costs, maintenance costs and ad valorem taxes. The allocation procedure provided in this Exhibit K shall be applied at the end of each calendar year, and the allocation percentages for annual maintenance cost thus developed shall be used for the subsequent twelve (12) months period.
- 5.2 **DETERMINATION OF PERCENTAGE ALLOCATION:** The annual maintenance costs and ad valorem taxes for the Southern Transmission Communication System shall be allocated to the Participants in the percentages developed from time to time in accordance with the following procedure:

Exhibit K Table 5.2							
Participants	SRP	APS	TEP	NV Energy	LADWP	United States	Totals
Participant's NWTs Entitlement Share (A)				26.10%	48.90%	25.00%	100.00%
Total Number of Channels used by NWTs (B)							12.0
NSTS Participants Responsibility for Costs - (RFC)	30.47%	24.81%	11.02%	3.55%	6.67%	23.48%	100.00%
Total Number of Channels used by NSTS (PUC)							236.5
Number of Channels used by each Participant (CHIP)	3	150	0.5	1.0	2.0	168	324.5
Total Number of Channels used in Microwave System (TECH)							573.0

Participant's Composite Usage Percentage of Total Allocation	13.10%	36.42%	4.64%	2.19%	4.13%	39.53%	100.00%
$((RFC * PUC) + (A * B) + CHIP) / TECH$							
Participant's Composite Usage for the period of 1/1/2020 through 12/31/2029	16.52%	38.63%	5.83%	2.34%	4.42%	32.27%	100.00%

NOTES:

Participant's Responsibility for Costs (RFC) taken from line entitled "Participant's Responsibility for Costs (% of Total Costs)" on page 2 of Exhibit B, SOUTHERN TRANSMISSION SYSTEM - RESPONSIBILITY FOR COSTS (RFC) AND RECORDED COSTS, to this Operating Agreement.

- 5.3 DETERMINATION OF EACH PARTICIPANT'S SHARE OF MONTHLY COSTS: The composite percentage allocation for each Participant developed in Section 5.2 hereof shall be multiplied by the applicable total monthly costs for the Southern Transmission Communication System as established pursuant to Section 2 of this Exhibit K to determine each Participant's share of the Southern Transmission Communication System monthly costs.
6. REVISIONS OF THIS EXHIBIT K: This Exhibit K shall be initially revised upon completion of construction of the Southern Transmission System and the preparation of the Final Completion Report, and subsequently upon changes to "Participants' Responsibility for Costs (% Total Costs)" in Exhibit B of this Operating Agreement or the addition of voice channels for the Transmission System or for individual Participants. Any such revisions shall be reviewed and approved by the Engineering and Operating Committee.

**EXHIBIT L-1
COMMON FACILITIES COSTS
WESTWING 230 KV SWITCHYARD**

**SOUTHERN TRANSMISSION SYSTEM
OPERATING AGREEMENT**

	COMMON FACILITIES PAID FOR & OWNED BY PARTICIPANTS INSTALLED 1974	CAPITAL IMPROVEMENTS PAID FOR & OWNED BY PARTICIPANTS INSTALLED 1990	TOTALS COMMON FACILITIES 230 KV SWITCHYARD PARTICIPANTS	
COMMON FACILITIES COLUMN:	(1)	(2)	(3)	ROW:
LAND	\$19,703.00	\$0.00		
GRADING, SURFACING & FENCING	\$104,910.00	\$0.00		
YARD LIGHTING	\$8,590.00	\$0.00		
YARD GROUNDING	\$23,160.00	\$0.00		
TRENCH & CONDUIT	\$58,840.00	\$0.00		
CONTROL & POWER CABLES	\$19,800.00	\$0.00		
STATION SERVICES	\$44,140.00	\$0.00		
CONTROL HOUSE	\$147,200.00	\$27,983.00		
CONTROL HOUSE EQUIPMENT	\$37,880.00	\$0.00		
COMMUNICATION, CONTROL RELAYS	\$104,650.00	\$0.00		
INITIAL MAIN BUS	\$120,820.00	\$0.00		
ADDITIONAL MAIN BUS	\$69,410.00	\$0.00		
EQUIPMENT	\$62,730.00	\$0.00		
ENGINEERING & INSPECTION	\$93,100.00			
TOTAL DIRECT COST	\$914,933.00	\$27,983.00	\$942,916.00	(A)
ALLOCATED COST (AFUDC, IDC, ETC)	\$139,758.00	\$1,754.76	\$141,512.76	(B)
TOTAL COST = TOTAL DIRECT COST+ALLOCATED COST	\$1,054,691.00	\$29,737.76	\$1,084,428.76	(C)

NOTES:

- DIRECT COSTS FOR COLUMN 1 FACILITIES ARE ACTUAL AND TAKEN FROM APS' FINAL COST REPORT DATED 3/31/78. ALLOCATED COSTS ARE ACTUAL.
- DIRECT COSTS FOR COLUMN 2 ARE ACTUAL AND ARE TAKEN FROM APS' LETTER TO NAVAJO PARTICIPATION OWNERS DATED 10/02/92. ALLOCATED COSTS ARE ACTUAL.

08/26/94

Exhibit L-2
ALLOCATION OF COMMON FACILITIES COSTS
WESTWING 230 KV SWITCHYARD

BP No. 22-015

SOUTHERN TRANSMISSION SYSTEM
OPERATING AGREEMENT

ALLOCATION OF 230 KV COMMON FACILITIES COSTS

ENTITY	SRP	APS	USBR	TEP	NV Energy	LADWP	TOTAL (FROM XHIBIT L-1)
1. RESPONSIBILITY FOR COSTS - %	36.10%	32.10%	31.80%	0	0	0	100.0%
INSTALLED 1974							
2. DIRECT COST = (1) * (A)	\$330,290.81	\$293,693.49	\$290,948.69			\$914,933.00	(COL 1, ROW A) (A)
3. ALLOCATED COST	14.86%	22.59%	8.37%				
4. (AFUDC, IDC, ETC)	\$49,064.55	\$66,345.18	\$24,348.27			\$139,758.00	(COL 1, ROW B)
INSTALLED 1990							
5. DIRECT COST = (1) * (B)	\$10,101.86	\$8,982.54	\$8,898.59			\$27,983.00	(COL 2, ROW A) (B)
6. ALLOCATED COST	\$1,664.07	\$90.69	\$0.00			\$1,754.76	(COL 2, ROW B)
7. TOTAL DIRECT COST = (2) + (5)	340,392.68	302,676.04	299,847.29			\$942,916.00	
8. TOTAL ALLOCATED COST = (4) + (6)	50,728.62	66,435.87	24,348.27			\$141,512.76	
9. ALLOCATED COST AS OF % OF TOTAL DIRECT COST = (8) / (7)	14.903%	21.949%	8.120%				
10. TOTAL COST = (7) + (8)	\$391,121.30	\$369,111.91	\$324,195.55			\$1,084,428.76	(COL 3, ROW C)

NOTES:

1 – FROM SECTION VIID.1, EXHIBIT B, PG 2

3 - % EITHER FURNISHED BY A PARTICIPANT OR CALCULATED FROM A PARTICIPANT'S FURNISHED TOTAL SOUTHERN TRANSMISSION SYSTEM (STS) PROJECT
AFUDC & ITS SHARE OF TOTAL STS PROJECT DIRECT COSTS.

6 - \$ FURNISHED BY EACH PARTICIPANT

8/26/94

EXHIBIT L-2 – CONT.
ALLOCATION OF COMMON FACILITIES COSTS
WESTWING 230 KV SWITCHYARD

BP No. 22-015

NOTES:

- (1) These values were determined by taking the Total Direct Cost (\$914,933) of the Common Facilities from Attachment A, COMMON FACILITIES COSTS, (Column 1, Row A), of Exhibit L and multiplying it by the percentages taken from “Responsibility for Costs - %” For Component VIID.1, Westwing 230 kV Switchyard, page 2 of Exhibit B to the Operating Agreement. The result of the aforementioned Multiplication gives the dollar allocation of the “Direct Cost” of The Common Facilities to each Participant. The “Allocated Cost” (“AFUDC, IDC, Allocated Overheads, Taxes, etc.”) that was capitalized as part of the costs of the Common Facilities was furnished by each Participant.
- (2) These values were determined by taking the Total Direct Cost (\$27,983) of capital improvements to the Common Facilities from Attachment A, COMMON FACILITIES COSTS, (Column 3, Row A), of Exhibit L, and multiplying by the percentages referenced in (1) above to obtain each Participant’s share. The “Allocated Cost” that was capitalized as part of the costs of the capital Improvements was furnished by each Participant.
- (3) The sum of the “Direct Cost” and the “Allocated Cost” equals the “Total Cost” of each Navajo Participant’s share of the Common Facilities

(END EXHIBIT L-2)

**COMMON FACILITIES EQUILIZATION CHARGE
WESTWING 230 KV SWITCHYARD**

**SOUTHERN TRANSMISSION SYSTEM
OPERATING AGREEMENT**

1.0 CALCULATION OF DEPRECIATION RATIO

WADDELL IN-SERVICE DATE	= (A)	1991	1991
COMMON FACILITIES IN-SERVICE DATE	= (B)	1974	1990
AGE	= (C) = (A) – (B)	17	1
AVERAGE SERVICE LIFE (ASL) – YES	= (D)	35	35
REMAINING LIFE (RL) – YES	= (E) FROM IOWA TYPE S1 CURVE	20.68	34.00
AGE+RL=TOTAL LIFE EXPECTANCY – YES	= (F) = (E) + (C)	37.68	35.00
DEPRECIATION RATIO = EL/(AGE+RL)	= (G) = (E)/(F)	0.549	0.971

2.0 CALCULATION OF COMMON FACILITIES OCLD

ENTITY	SRP	APS	USBR	TEP	NV Energy	LADWP	TOTAL
2.1 PRIOR TO WADDELL:							
RESPONSIBILITY FOR COSTS-%	36.10%	32.10%	31.80%	0	0	0	100.00%
i) INSTALLED 1974							
(1) DIRECT COST (OC)	330,290.81	293,693.49	290,948.69				914,933.00
(H) DIRECT COST (OLDC) = OC*(G)	181,254.48	161,170.88	159,664.61				502,089.97
ii) INSTALLED 1990							
(2) DIRECT COST (OC)	10,101.86	8,982.54	8,898.59				27,983.00
(I) DIRECT COST (OCLD) = OC*(G)	9,813.24	8,725.90	8,644.35				27,183.49
(J) TOTAL COMMON FACILITIES OCLD =(H) + (I)	191,067.72	169,896.78	168,308.96				529,273.46

NOTES:

(1) – FROM LINE 2, EXHIBIT L-2

(2) – FROM LINE 5, EXHIBIT L-2

OC – ORIGINAL COST

OCLD- ORIGINAL COST LESS DEPRECIATION

08/26/94

07/11/95 ENTITY	SRP	APS	USBR	TEP	NV Energy	BP No. 89-015 LADWP	TOTAL
2.2 AFTER WADDELL:							
(K) RESPONSIBILITY FOR COSTS-%	32.00%	28.60%	39.40%	0	0	0	100.00%
i) INSTALLED 1974							
DIRECT COST (OC) = (K) + (3)	292,778.56	261,670.84	360,483.60				914,933.00
(L) DIRECT COST (OLDC) = OC*(G)	160,668.79	143,597.73	197,823.45				502,089.97
ii) INSTALLED 1990							
DIRECT COST (OC) = (E)*(4)	8,954.56	8,003.14	11,025.30				27,983.00
(M) DIRECT COST (OCLD) = OC*(G)	8,698.72	7,774.48	10,710.29				27,183.49
(N) TOTAL COMMON FACILITIES OLCD =(L) + (H)	169,367.51	151,372.21	208,533.74				529,273.46

NOTES:

(K) – FROM LINE *230 KV COMMON FACILITIES*, EXHIBIT B, PG 2

(3) – FROM A, EXHIBIT L-2

(4) – FROM B, EXHIBIT L-2

3.0 CALCULATION OF 230 KV COMMON FACILITIES EQUILIZATION CHARGE

ENTITY	SRP	APS	USBR	TEP	NV Energy	LADWP	TOTAL
(O) DELTA \$ (DIRECT COSTS)= (J)-(H)	21,700.21	1,524.57	(40,224.78)				0
(P) % ALLOCATION COST	14.90%	21.95%					
(Q) ALLOCATED COST = (O) * (P)	3,233.98	4,066.05					
(R) TOTAL COST (OCLD) = (O) + (Q)	24,934.19	22,590.62					
(S) FIXED CHARGE RATES	14.650%	16.740%					
(T) ANNUAL CHARGE = (R) * (S)	3,652.86	3,781.67	(,434.52)				0
(U) MONTHLY CHARGE = (T)/12 = CREDIT TO NAVAJO PARTICIPANTS	304.40	315.14	(619.54)				0

NOTES:

(P) – FROM LINE 9, EXHIBIT L-2

(S) – FROM SECTION 1.0, EXHIBIT L-4

07/17/95

EXHIBIT L-4
ANNUAL FIXED CHARGE RATES & SALES TAXED
SOUTHERN TRANSMISSION SYSTEM
OPERATING AGREEMENT

BP No. 22-015

1.0 CALCULATION OF ANNUAL FIXED CHARGE RATES:

NAVAJO PARTICIPANTS	SRP	APS	USBR	TEP	NV Energy	LADWP
ANNUAL RATE OF RETURN (i)	9.80%	9.19%	N/A	N/A	N/A	N/A
DEPRECIATION BASIS – YEARS (a)	35.00	41.00				
CORPORATE INCOME TAX RATE	0.00%	40.37%				
CAPTIAL RECOVERY FACTOR (CRF) (2)	10.19%	9.45%				
INCOME TAX COMPONENT	0.00%	2.58%				
AD-VALOREM TAX/IN-LIEU-OF-TX	2.30%	3.58%				
ANNUAL FIXED CHARGE RATE	12.49%	16.74%				

NOTE: 1) ALL DATA FURNISHED BY EACH PARTICIPANT AS SHOWN

(a) a)

2) $CRF = I (1+i) / [(1+i) - 1]$

2.0 CALCULATION OF UNITED STATES' TRANSACTION PRIVILEGE TAX (SALES TAX) PAYMENT – IF APPLICABLE:

BP No. 22-015

ENTITY	SRP	APS	USBR	TEP	TOTAL	
(1) RESPONSIBILITY FOR COSTS – WADDELL INTERCONNECTION			100%		100%	
(2) TOTAL MONTHLY COMMON FACILITIES EQUILIZATION PAYMENTS = (1) X (C1)			\$619.54		\$619.54 (C1)	CHARGE (CFEQ)
(3) TOTAL MONTHLY CREDIT TO PARTICIPANTS (SALES TAX BASE, IF SALES TAX APPLICABLE)	\$304.41	\$315.16	0	0	\$619.54 (C1)	

IF SALES TAX IS APPLICABLE:

(4) TAX RATE	5%	5%				
(5) PARTICIPANTS' SALES TAX OBLIGATIONS = (4) X (3)	\$15.22	\$15.76			\$30.98 (C2)	
(6) SALES TAX PAYMENT = (1) X (C2)			30.98		\$30.98	
(7) TOTAL UNITES STATES' MONTHLY PAYMENT - CFEQ CHARGE + SALES TAX = (6) + (2)			650.52		\$650.52	

NOTES:

C1 – FROM LINE U, SECTION 3.0, EXHIBIT L-2

C2 – FROM LINE 5, TOTAL COLUMN, THIS SECTION

EXHIBIT M-1
COMMON FACILITY COSTS
MORGAN 500/230 KV SUBSTATION
SOUTHERN TRANSMISSION SYSTEM OPERATING AGREEMENT

<u>Description</u>	<u>Total Cost</u>	<u>APS</u>	<u>SRP</u>	<u>Third Party</u>
Engineering & Design	\$730,176	\$497,797	\$232,379	
Studies	\$15,567	\$10,613	\$4,954	
Batteries	\$424	\$289	\$135	
Breakers	\$0	\$0	\$0	
Conduit	\$67,423	\$45,966	\$21,457	
Control Cable	\$821,677	\$560,178	\$261,499	
Control House	\$268,531	\$183,071	\$85,460	
Fences & Barriers	\$327,559	\$223,313	\$104,246	
Foundations	\$1,718,274	\$1,171,433	\$546,841	
Grounding/Lighting	\$764,015	\$520,867	\$243,148	
Landscaping	\$62,314	\$42,483	\$19,831	
Primary OH Line Conductor	\$1,466,491	\$999,780	\$466,711	
Roads, Sidewalks, Curbs	\$2,409,895	\$1,642,946	\$766,949	
Second OH Line Conductor	\$392,632	\$267,677	\$124,955	
Security Equipment	\$525	\$358	\$167	
Site Clearing	\$141,521	\$96,482	\$45,039	
Splice/Pull Box	\$8,592	\$5,858	\$2,734	
Steel Streetlight	\$61,686	\$42,054	\$19,632	
Transformers	\$726,778	\$495,481	\$231,297	
UG Line Conductors	\$33,989	\$23,172	\$10,817	
Yard Drainage & Flood Protection	\$115,494	\$78,738	\$36,756	
Communications	\$879,168	\$599,373	\$279,795	
Cable Trench	\$173,667	\$118,397	\$55,270	
Fixtures Underground	\$6,842	\$4,665	\$2,177	
Improvements from 5/25/10 – 2/8/18	\$6,011,557	\$4,098,119	\$1,913,438	
Third Party Buy-in 2/8/18		\$(3,905,880)	\$(1,823,317)	\$5,729,197
Total	<u>\$17,204,797</u>	<u>\$7,823,490</u>	<u>\$3,652,110</u>	<u>\$5,729,197</u>
Percent		45.473%	21.227%	33.300%

Morgan 500/230 kV Common Facilities Use Fee

This Exhibit M-1 provides the methodology for calculation of the Morgan 500/230 kV Substation common facilities use fee, a one-time payment, to be made by Third Party(s) for use of the Morgan 500/230 kV Substation common facilities. The One-time payment by Third Party(s) for use of the Morgan 500/230 kV Substation common facilities is calculated as follows:

$$P = (OIC + CI) \times \text{Third Party CRR}$$

Where:

P = One-time common facilities payment by Third Party(s)

OIC = Common Facilities original installed costs of \$11,193,240

CI = Cost of common facilities capital improvements from May 25, 2010 to date of execution of
Third Party Agreement

Third Party CRR = Connections by other users as shown in Exhibit M-2

EXHIBIT M-2
COMPUTATION OF COST RESPONSIBILITY RATIO (CRR)
MORGAN 500/230 KV SUBSTATION
SOUTHERN TRANSMISSION SYSTEM OPERATING AGREEMENT

Computation of the CRR for the Morgan 500/230 kV Substation:

$$\begin{array}{l}
 \text{Participant CRR} = \frac{A}{A+B+Z} = \frac{1.0}{1+1+1} = \frac{1}{3} = .333 \\
 \\
 \text{MOR-PP CRR} = \frac{B}{A+B+Z} = \frac{1}{1+1+1} = \frac{1}{3} = .333 \\
 \\
 \text{Third Party CRR} = \frac{Z}{A+B+Z} = \frac{0}{1+1+1} = \frac{1}{3} = .333
 \end{array}$$

Where:

A = Connections used by Participants	1.0
B = Connections used by Morgan-PP Line Participants	1.0
Z = Connections used by Others	
Sun Valley – Morgan 500 kV Line	<u>1.0</u>
Total Number of Morgan 500/230 kV Connections	3.0

Cost responsibility of the terminations at the Morgan 500 kV Switchyard:

	APS	SRP	Others
Morgan – PP 500 kV Line	50%	50%	0%
APS 500/230 kV Transformer	100%	0%	0%
Morgan – Dugas 500 kV Line	75%	25%	0%
Morgan – WW 500kV Line	75%	25%	0%
Sun Valley – Morgan 500 kV Line	90%	0%	10% ⁹

Cost responsibility of the 500/230 kV Transformer

<u>APS</u>	<u>SRP</u>
100%	0%

⁹ Central Arizona Water Conservation District is a 10% owner of the Sun Valley to Morgan 500 kV Line.

EXHIBIT M-3
DESCRIPTION OF MORGAN 500/230 KV SUBSTATION PROPERTY
SOUTHERN TRANSMISSION SYSTEM OPERATING AGREEMENT

MORGAN (TS9) SUBSTATION SITE
Arizona State Land Department R/W No. 16-112634
Parcel Allocations and Common Area
Section 33, T6N, R1E and Section 4, T5N, R1E of the G. & S.R.M.
Maricopa County, Arizona

Three (3) parcels of land lying within the East half (E½) of Section 33, Township 6 North, Range 1 East and the East half (E½) of Section 4, Township 5 North, Range 1 East of the G&SRM, Maricopa County, Arizona, said parcels are described as follows:

500 kV Area:

Commencing, at the Southeast corner of said Section 33 from which the East quarter (E 1/4) corner of said Section 33 bears N00°23'19"E a distance of 2645.13 feet;

Thence, along the South line of said Section 33, S89°46'16"W, a distance of 2049.03 feet, to a point on the existing West right-of-way line of the Navajo 500 kV right-of-way corridor;

Thence, leaving said South line and along said right-of-way corridor, N34°52'19"E, a distance of 1140.75 feet,

Thence, leaving said West right-of-way line, N54°24'24"W, a distance of 109.01 feet, to the **POINT OF BEGINNING**;

Thence, continuing, N54°24'24"W, a distance of 1312.86 feet;

Thence, N34°52'19"E, a distance of 753.80 feet;

Thence, S55°07'41"E, a distance of 1312.75 feet;

Thence, S34°52'19"W, a distance of 770.33 feet to the **POINT OF BEGINNING**;

Contains 22.966 Acres more or less.

230 kV Area :

Commencing, at the Southeast corner of said Section 33 from which the East quarter (E 1/4) corner of said Section 33 bears N00°23'19"E, a distance of 2645.13 feet;

Thence, along the South line of said Section 33, S89°46'16"W, a distance of 2049.03 feet, to a point on the existing West right-of-way line of the Navajo 500 kV right-of-way corridor;

Thence, leaving said South line and along said right-of-way corridor, N34°52'19"E, a distance of 987.45 feet;

Thence, leaving said West right-of-way line, N55°07'46"W, a distance of 109.00 feet, to the **POINT OF BEGINNING**;

Thence, S34°52'19"W, a distance of 434.71 feet;

Thence, N55°07'41"W, a distance of 1312.75 feet;

Thence, N34°52'19"E, a distance of 434.72 feet;

Thence, S55°07'46"E, a distance of 1312.75 feet, to the **POINT OF BEGINNING**;

Contains 13.108 Acres more or less.

Common Area :

Commencing, at the Southeast corner of said Section 33 from which the East quarter (E 1/4) corner of said Section 33 bears N00°23'19"E, a distance of 2645.13 feet;

Thence, along the South line of said Section 33, S89°46'16"W, a distance of 2049.03 feet, to a point on the existing West right-of-way line of the Navajo 500 kV right-of-way corridor and the **POINT OF BEGINNING**;

Thence, leaving said South line of said Section 33 and continuing along said right-of-way corridor, S34°52'19"W, a distance of 386.2 feet;

Thence, N29°27'16"W, a distance of 362.06 feet to a point on the South line of said Section 33;

Thence, continuing N29°27'16"W, a distance of 673.26 feet to a USDOI Brass Cap in Concrete;

Thence, continuing N29°27'16"W, a distance of 739.94 feet;

Thence, N34°52'19"E, a distance of 1657.89 feet;

Thence, S55°07'41"E, a distance of 1600.00 feet, to a point on the existing Westerly right-of-way line of the Navajo 500 kV right-of-way corridor;

Thence, along said right-of-way line, S34°52'19"W, a distance of 2040.80 feet, to the **POINT OF BEGINNING**;

EXCEPT, that portion of land described herein as **500 kV Area (22.966 acres) and;**

EXCEPT, that portion of land described herein as **230 kV Area (13.108 acres).**

Contains 38.947 Acres more or less.

Exhibit M-3

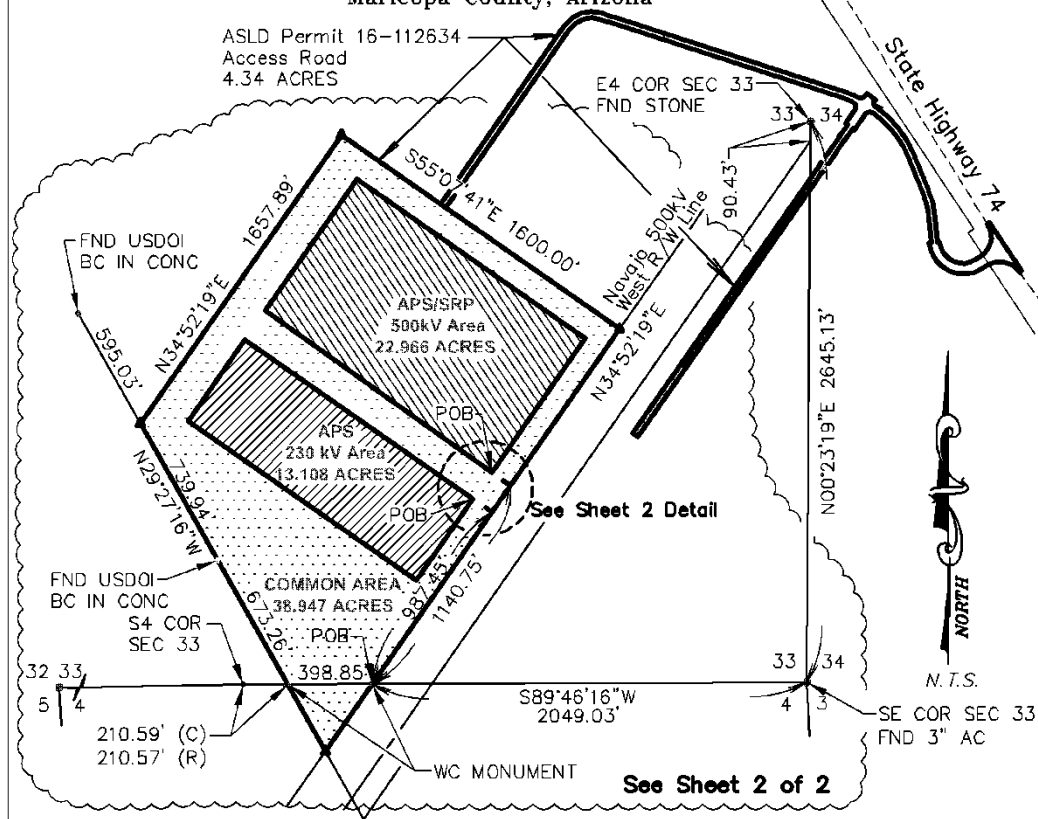
Morgan (TS-9) Substation Property

Arizona State Land Department R/W No. 16-112634

A portion of Section 33, Township 6 North, Range 1 East G&SRM

A portion of Section 4, Township 5 North, Range 1 East G&SRM

Maricopa County, Arizona



		APS	SRP
500kV Area	22.966 Acres		
50% APS	11.483 Acres	\$260,881.91	
50% SRP	11.483 Acres		\$260,881.91
230kV Area	13.108 Acres		
100% APS		\$297,800.23	-0-
Common Area	38.947 Acres		
68.175% APS	26.552 Acres	\$603,234.03	
31.825% SRP	12.395 Acres		\$281,601.61
Access Road	4.340 Acres		
68.175% APS	2.959 Acres	\$67,225.43	
31.825% SRP	1.381 Acres		\$31,374.89
	79.361 Acres	\$1,229,141.60	\$573,858.41 = \$1,803,000.00

NOTE:
 BEARINGS AND DISTANCES SHOWN HEREON ARE BASED ON:
 "ARIZONA PUBLIC SERVICE COMPANY - RESULTS OF SURVEY
 FOR PINNACLE PEAK SUBSTATION"
 RECORDED IN BOOK 1004 PAGE 40, M.C.R.

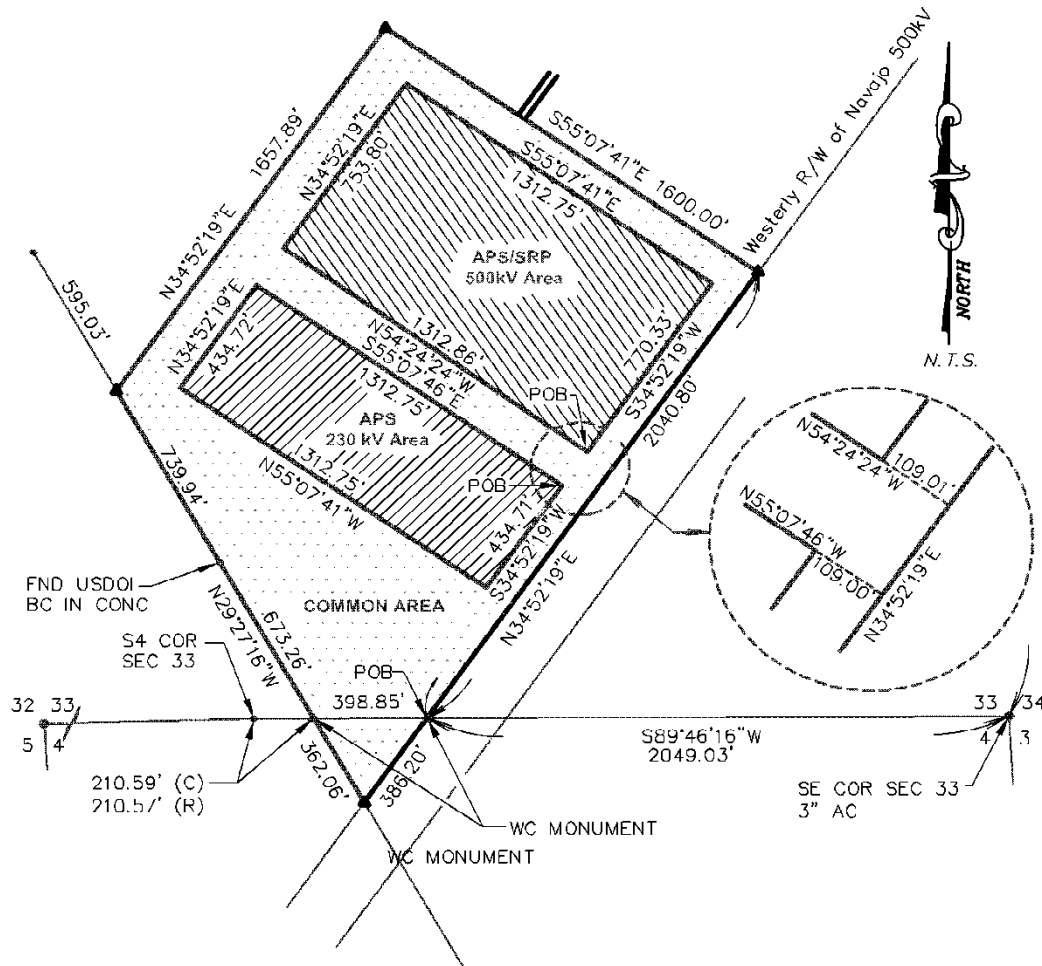
MORGAN SUBSTATION PROPERTY

JOB	
NO.	
DATE	09-09-09
Rev. 11-09-09 Sheet 1 of 2	

Exhibit M-3

Morgan (TS-9) Substation Property

Arizona State Land Department R/W No. 16-112634
 A portion of Section 33, Township 6 North, Range 1 East G&SRM
 A portion of Section 4, Township 5 North, Range 1 East G&SRM
 Maricopa County, Arizona

**NOTE:**

BEARINGS AND DISTANCES SHOWN HEREON ARE BASED ON:
 "ARIZONA PUBLIC SERVICE COMPANY - RESULTS OF
 SURVEY FOR PINNACLE PEAK SUBSTATION"
 RECORDED IN BOOK 1004 PAGE 40, M.C.R.

MORGAN SUBSTATION PROPERTY

JOB	
NO.	DATE 09-09-09
Sheet 2 of 2	

Exhibit 1EXAMPLE OF LOAD DISPATCHING ALLOCATION RATIO CALCULATION**FERC Accounts 561.1 through 561.8 – Load Dispatch**

Total Load Dispatching Costs from FERC Account 561 = \$T

Step 1 – Allocation of Total Load Dispatch Dollars to Activity

Planned & Unplanned Outages $69.4\% \times \$T = \A

Electronic Tags $30.6\% \times \$T = \B

Step 2 – Allocation of planned and unplanned related dollars to Participants

		APS		
		<u>Sub</u>	<u>System</u>	<u>Percent</u>
# Outages	Sub Navajo	17	823	2.07%
	Sub Westwing 230 (66%)	17	823	1.40%
	Sub Westwing 500 (57%)	28	823	1.97%
	Sub Cedar Mountain	2	823	.24%
	Sub Moenkopi(50%)	29	823	1.76%
	Sub Morgan 500	4	823	.49%
Total Outage Percentage				7.93%

13.26% times \$A = **Total Outage Cost (\$a)**

Step 3 – Allocation of Electronic Tag related dollars to Participants

		APS		
		<u>Sub</u>	<u>System</u>	<u>Percent</u>
# etags	Sub Navajo	1,469	241,651	.61%
	Sub Westwing 230 (66%)	11,543	241,651	3.17%
	Sub Westwing 500 (57%)	28,289	213,651	6.69%
	Sub Cedar Mountain	193	213,651	.19%
	Sub Moenkopi(50%)	545	213,651	.12%
	Sub Morgan 500	8,652	213,651	3.58%
Total Etag Percentage				14.36%

12.53% times \$B = **Total Etag Cost (\$b)**

Total Participant Allocation = \$a + \$b