
SCHEDULE 21-VELCO
Local Service Schedule
Vermont Electric Power Company

I. COMMON SERVICE PROVISIONS

This Local Service Schedule, designated Schedule 21-VELCO, governs the terms and conditions of service taken by Transmission Customers over VELCO's Transmission System who are not otherwise served under transmission service contracts with VELCO that are still in effect. In the event of a conflict between the provisions of this Schedule 21-VELCO and the other provisions of the Tariff, the provisions of this Schedule 21-VELCO shall control.

1 Definitions

Whenever used in this Schedule 21-VELCO, in either the singular or the plural, the following capitalized terms shall have the meanings specified in this Section 1. Terms used in this Schedule 21-VELCO but not defined in this Section 1 shall have the meaning specified elsewhere in the Tariff, or if not defined therein, such terms shall have the meanings customarily attributed to such terms by the electric utility industry in New England.

1.1 Actual Transmission Costs: The total actual cost of VELCO's Transmission System for purposes of Local Network Service shall be the amount determined each month pursuant to the formula specified in Attachment D until amended by VELCO or modified by the Commission.

1.2 Firm Local Point-To-Point Transmission Service: Transmission Service that is reserved and/or scheduled between specified Points of Receipt and Delivery

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on VELCO's Transmission System pursuant to this Schedule 21.

- 1.3 Interruption:** A reduction in non-firm transmission service due to economic reasons pursuant to the terms of this Schedule 21.
- 1.4 Load Ratio Share:** Ratio of a Transmission Customer's Local Network Load to VELCO's total load computed in accordance with this Schedule 21-VELCO and calculated on a rolling twelve-month basis.
- 1.5 Local Network Customer:** An entity receiving Local Network Service pursuant to the terms of this Schedule 21.
- 1.6 Local Network Operating Agreement:** An executed agreement that contains the terms and conditions under which the Local Network Customer shall operate its facilities and the technical and operational matters associated with the implementation of Local Network Service under this Schedule 21.
- 1.7 Local Point-To-Point Transmission Service:** The reservation and transmission of capacity and energy on either a firm or non-firm basis from the Point(s) of Receipt to the Point(s) of Delivery under this Schedule 21.
- 1.8 Local Reserved Capacity:** The maximum amount of capacity and energy that VELCO agrees to transmit for the Transmission Customer over VELCO's Transmission System between the Point(s) of Receipt and the Point(s) of Delivery under this Schedule 21. Reserved Capacity shall be expressed in terms of whole megawatts on a sixty (60) minute interval (commencing on the clock hour) basis.

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- 1.9 Non-Firm Local Point-To-Point Transmission Service:** Point-To-Point Transmission Service on VELCO's Transmission System under this Schedule 21 that is reserved and scheduled on an as-available basis and is subject to Curtailment or Interruption. Non-Firm Local Point-To-Point Transmission Service is available on a stand-alone basis for periods ranging from one hour to one month.
- 1.10 Parties:** VELCO and the Transmission Customer receiving service under this Schedule 21-VELCO.
- 1.11 Receiving Party:** The entity receiving the capacity and energy transmitted by VELCO to Point(s) of Delivery under this Schedule 21.
- 1.12 Service Commencement Date:** The date that VELCO begins to provide service pursuant to the terms of an executed Service Agreement, or the date that VELCO begins to provide service in accordance with this Schedule 21.
- 1.13 Short-Term Firm Local Point-To-Point Transmission Service:** Firm Local Point-To-Point Transmission Service under this Schedule 21-VELCO with a term of less than one year.
- 1.14 VELCO:** Vermont Electric Power Company.
- 1.15 VELCO's Monthly Transmission System Peak:** The maximum firm usage of VELCO's Transmission System in a calendar month.
- 1.16 VELCO's Transmission System:** The Non-PTF facilities owned, controlled or

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operated by VELCO that are used to provide transmission service under this Schedule 21.

2 Initial Allocation and Renewal Procedures

2.1 Reservation Priority For Existing Firm Service Customers: Existing firm service customers (wholesale requirements and transmission-only, with a contract term of one-year or more), have the right to continue to take transmission service from VELCO when the contract expires, rolls over or is renewed. This transmission reservation priority is independent of whether the existing customer continues to purchase capacity and energy from VELCO or elects to purchase capacity and energy from another supplier. If at the end of the contract term, VELCO's Transmission System cannot accommodate all of the requests for transmission service the existing firm service customer must agree to accept a contract term at least equal to a competing request by any new Eligible Customer and to pay the current just and reasonable rate, as approved by the Commission, for such service. This transmission reservation priority for existing firm service customers is an ongoing right that may be exercised at the end of all firm contract terms of one year or longer.

3 Ancillary Services

Ancillary Services are needed with transmission service to maintain reliability within and among the Control Areas affected by the transmission service. VELCO offers to arrange

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with the ISO, and the Transmission Customer is required to purchase or otherwise obtain, the following Ancillary Services: (i) Scheduling, System Control and Dispatch.

3.1 Scheduling, System Control and Dispatch Service: The rates and/or methodology are described in Schedule 1 of this Schedule 21-VELCO.

4 Billing and Payment

4.1 Billing Procedure: Within a reasonable time after the first day of each month, VELCO shall submit an invoice to the Transmission Customer for the charges for all services furnished under this Schedule 21-VELCO during the preceding month. The invoice shall be paid by the Transmission Customer within twenty (20) days of receipt. All payments shall be made in immediately available funds payable to VELCO, or by wire transfer to a bank named by VELCO.

4.2 Interest on Unpaid Balances: Interest on any unpaid amounts (including amounts placed in escrow) shall be calculated in accordance with the methodology specified for interest on refunds in the Commission's regulations at 18 C.F.R. § 35.19a(a)(2)(iii). Interest on delinquent amounts shall be calculated from the due date of the bill to the date of payment. When payments are made by mail, bills shall be considered as having been paid on the date of receipt by VELCO.

4.3 Customer Default: In the event the Transmission Customer fails, for any reason other than a billing dispute as described below, to make payment to VELCO on or before the due date as described above, and such failure of payment is not

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corrected within thirty (30) calendar days after VELCO notifies the Transmission Customer to cure such failure, a default by the Transmission Customer shall be deemed to exist. Upon the occurrence of a default, VELCO may initiate a proceeding with the Commission to terminate service but shall not terminate service until the Commission so approves any such request. In the event of a billing dispute between VELCO and the Transmission Customer, VELCO will continue to provide service under the Service Agreement as long as the Transmission Customer (i) continues to make all payments not in dispute, and (ii) pays into an independent escrow account the portion of the invoice in dispute, pending resolution of such dispute. If the Transmission Customer fails to meet these two requirements for continuation of service, then VELCO may provide notice to the Transmission Customer of its intention to suspend service in sixty (60) days, in accordance with Commission policy.

5 Accounting for VELCO's Use of the Tariff

VELCO shall record the following amounts, as outlined below.

- 5.1 Transmission Revenues:** Include in a separate operating revenue account or sub-account the revenues it receives from Local Point-to-Point Transmission Service when making Third-Party Sales.
- 5.2 Study Costs and Revenues:** Include in a separate transmission operating expense account or sub-account, costs properly chargeable to expense that are incurred to

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perform any System Impact Studies or Facilities Studies that VELCO conducts to determine if it must construct new transmission facilities or upgrades necessary for its own uses, including making Third-Party Sales, and include in a separate operating revenue account or sub-account the revenues received for System Impact Studies or Facilities Studies performed when such amounts are separately stated and identified in the Transmission Customer's billing under this Schedule 21.

6 Regulatory Filings

Nothing contained in the Tariff or any exhibit, appendix, schedule, attachment or Service Agreement related thereto shall be construed as affecting in any way the right of VELCO unilaterally to file with the Commission, or make application to the Commission for changes in rates, terms and conditions, charges, classification of service, Service Agreement, rule or regulation with respect to this Schedule 21-VELCO under Section 205 of the Federal Power Act and pursuant to the Commission's rules and regulations promulgated thereunder, or any other applicable statutes or regulations. Nothing contained in the Tariff or any exhibit, appendix, schedule, attachment or Service Agreement related hereto shall be construed as affecting in any way the ability of VELCO or any Transmission Customer receiving service under the Tariff to exercise any right under the Federal Power Act and pursuant to the Commission's rules and regulations promulgated thereunder.

7 Force Majeure and Indemnification

7.1 Force Majeure: An event of Force Majeure means any act of God, labor

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disturbance, act of the public enemy, war, insurrection, riot, fire, storm or flood, explosion, breakage or accident to machinery or equipment, any Curtailment, order, regulation or restriction imposed by governmental military or lawfully established civilian authorities, or any other cause beyond a Party's control. A Force Majeure event does not include an act of negligence or intentional wrongdoing. Neither VELCO nor the Transmission Customer will be considered in default as to any obligation under this Schedule 21 if prevented from fulfilling the obligation due to an event of Force Majeure. However, a Party whose performance under this Schedule 21 is hindered by an event of Force Majeure shall make all reasonable efforts to perform its obligations under this Schedule 21.

7.2 Indemnification: The Transmission Customer shall at all times indemnify, defend, and save VELCO harmless from, any and all damages, losses, claims, including claims and actions relating to injury to or death of any person or damage to property, demands, suits, recoveries, costs and expenses, court costs, attorney fees, and all other obligations by or to third parties, arising out of or resulting from VELCO's performance of its obligations under this Schedule 21 on behalf of the Transmission Customer, except in cases of negligence or intentional wrongdoing by VELCO.

8 Creditworthiness

For the purpose of determining the ability of the Transmission Customer to meet its

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obligations related to service hereunder, VELCO may require reasonable credit review procedures. This review shall be made in accordance with standard commercial practices. In addition, VELCO may require the Transmission Customer to provide and maintain in effect during the term of the Service Agreement, an unconditional and irrevocable letter of credit as security to meet its responsibilities and obligations under this Schedule 21, or an alternative form of security proposed by the Transmission Customer and acceptable to VELCO and consistent with commercial practices established by the Uniform Commercial Code that protects VELCO against the risk of non-payment.

9 Dispute Resolution Procedures

9.1 Internal Dispute Resolution Procedures: Any dispute between a Transmission Customer and VELCO involving service under this Schedule 21 (excluding disputes arising from filings or rate changes or other changes to this Schedule 21-VELCO, or to any Service Agreement entered into under this Schedule 21-VELCO, which disputes shall be presented directly to the Commission for resolution) shall be referred to a designated senior representative of VELCO and a senior representative of the Transmission Customer for resolution on an informal basis as promptly as practicable. In the event the designated representatives are unable to resolve the dispute within thirty (30) days (or such other period as the Parties may agree upon), such dispute may be submitted to arbitration and resolved in accordance with the arbitration procedures set forth

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below if the Parties in dispute agree to the use of such procedures.

9.2 External Arbitration Procedures: Any arbitration initiated under this Schedule 21-VELCO shall be conducted before a single neutral arbitrator appointed by the Parties. If the Parties fail to agree upon a single arbitrator within ten (10) days of the referral of the dispute to arbitration, each Party shall choose one arbitrator who shall sit on a three-member arbitration panel. The two arbitrators so chosen shall within twenty (20) days select a third arbitrator to chair the arbitration Panel. In either case, the arbitrators shall be knowledgeable in electric utility matters, including electric transmission and bulk power issues, and shall not have any current or past substantial business or financial relationships with any party to the arbitration (except prior arbitration). The arbitrator(s) shall provide each of the Parties an opportunity to be heard and, except as otherwise provided herein, shall generally conduct the arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association and any applicable Commission regulations or ISO rules.

9.3 Arbitration Decisions: Unless otherwise agreed, the arbitrator(s) shall render a decision within ninety (90) days of appointment and shall notify the Parties in writing of such decision and the reasons therefor. The arbitrator(s) shall be authorized only to interpret and apply the provisions of this Schedule 21 and any Service Agreement relevant to the dispute entered into under this Schedule 21 and

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shall have no power to modify or change any of the above in any manner. The decision of the arbitrator(s) shall be final and binding upon the Parties, and judgment on the award may be entered in any court having jurisdiction. The decision of the arbitrator(s) may be appealed solely on the grounds that the conduct of the arbitrator(s), or the decision itself, violated the standards set forth in the Federal Arbitration Act and/or the Administrative Dispute Resolution Act. The final decision of the arbitrator must also be filed with the Commission if it affects jurisdictional rates, terms and conditions of service or facilities.

9.4 Costs: Each Party shall be responsible for its own costs incurred during the arbitration process and for the following costs, if applicable:

- (A) the cost of the arbitrator chosen by the Party to sit on the three member panel and one half of the cost of the third arbitrator chosen; or
- (B) one half the cost of the single arbitrator jointly chosen by the Parties.

9.5 Rights Under The Federal Power Act: Nothing in this section shall restrict the rights of any party to file a Complaint with the Commission under relevant provisions of the Federal Power Act.

10 Real Power Losses

Real Power Losses are associated with all transmission service. VELCO is not obligated to provide Real Power Losses. The Transmission Customer is responsible for replacing losses associated with all transmission service provided over VELCO's Transmission System under this

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Schedule 21 as calculated by VELCO. The applicable Real Power Loss factor is 3.9 percent of the amount of energy to be transmitted.

11 Stranded Cost Recovery

VELCO may seek to recover stranded costs from the Transmission Customer pursuant to this Schedule 21 in accordance with the terms, conditions and procedures set forth in FERC Order Nos. 888 and 888-A. However, VELCO must separately file any specific proposed stranded cost charge under Section 205 of the Federal Power Act.

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II. LOCAL POINT-TO-POINT TRANSMISSION SERVICE

Preamble

VELCO will provide Firm and Non-Firm Local Point-To-Point Transmission Service over VELCO's Transmission System pursuant to the applicable terms and conditions of this Schedule

21. Local Point-To-Point Transmission Service is for the receipt of capacity and energy at designated Point(s) of Receipt and the transmission of such capacity and energy to designated Point(s) of Delivery.

12 Classification of Firm Transmission Service

The Transmission Customer will be billed for its Local Reserved Capacity under the terms of Schedule 7 of this Schedule 21-VELCO. The Transmission Customer may not exceed its firm capacity reserved at each Point of Receipt and each Point of Delivery except as otherwise specified in this Schedule 21-VELCO. VELCO shall specify the rate treatment and all related terms and conditions applicable in the event that a Transmission Customer (including Third-Party Sales by VELCO) exceeds its firm reserved capacity at any Point of Receipt or Point of Delivery.

13. Classification of Non-Firm Point-To-Point Transmission Service

The Transmission Customer will be billed for Non-Firm Local Point-To-Point Transmission Service pursuant to Schedule 8 of this Schedule 21-VELCO. VELCO shall specify the rate treatment and all related terms and conditions applicable in the event that a Transmission Customer (including Third Party Sales by VELCO) exceeds its non-firm local capacity reservation. Non-Firm Local Point-To-Point Transmission Service shall include transmission of

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energy on an hourly basis and transmission of scheduled short-term capacity and energy on a daily, weekly or monthly basis, but not to exceed one month's reservation for any one Application.

14 Response to a Completed Application

Following receipt of a Completed Application for Firm Point-To-Point Transmission Service, VELCO shall make a determination of available transmission capability consistent with Attachment A of this Schedule 21-VELCO. VELCO shall notify the Eligible Customer as soon as practicable, but not later than thirty (30) days after the date of receipt of a Completed Application either (i) if it will be able to provide service without performing a System Impact Study or (ii) if such a study is needed to evaluate the impact of the Application. Responses by VELCO must be made as soon as practicable to all completed applications (including applications by its own merchant function) and the timing of such responses must be made on a non-discriminatory basis.

15 Limitations on Assignment or Transfer of Service

If an Assignee requests a change in the Point(s) of Receipt or Point(s) of Delivery, or a change in any other specifications set forth in the original Service Agreement, VELCO will consent to such change subject to the provisions of the Tariff, provided that the change will not impair the operation and reliability of VELCO's Transmission System or the generating or distribution facilities of other Vermont utilities.

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16 Metering and Power Factor Correction at Receipt and Delivery Points(s)

16.1 Transmission Customer Obligations: Unless otherwise agreed, the Transmission Customer shall be responsible for installing and maintaining compatible metering and communications equipment to accurately account for the capacity and energy being transmitted under this Schedule 21 and to communicate the information to VELCO. Such equipment shall remain the property of the Transmission Customer.

16.2 Power Factor: Unless otherwise agreed, the Transmission Customer is required to maintain a power factor within the same range as VELCO. The power factor requirements are specified in the Service Agreement where applicable.

17 Compensation for Transmission Service

Rates for Firm and Non-Firm Local Point-To-Point Transmission Service are provided in the Schedules appended to this Schedule 21-VELCO: Long-Term Firm and Short-Term Firm Local Point-To-Point Transmission Service (Schedule 7); and Non-Firm Local Point-To-Point Transmission Service (Schedule 8). VELCO shall use this Schedule 21 to make its Third-Party Sales. VELCO shall account for such use at the applicable rates described herein.

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III. LOCAL NETWORK SERVICE

18 Secondary Service

The Local Network Customer may use VELCO's Transmission System to deliver energy to its Local Network Loads from resources that have not been designated as Network Resources. Such energy shall be transmitted, on an as-available basis, at no additional charge. Deliveries from resources other than Network Resources will have a higher priority than any Non Firm Local Point-To-Point Transmission Service under this Schedule 21-VELCO.

19 Network Resources

19.1 Transmission Arrangements for Network Resources Not Physically

Interconnected With VELCO: The Local Network Customer shall be responsible for any arrangements necessary to deliver capacity and energy from a Network Resource not physically interconnected with VELCO's Transmission System. VELCO will undertake reasonable efforts to assist the Local Network Customer in obtaining such arrangements, including without limitation, providing any information or data required by such other entity pursuant to Good Utility Practice.

19.2 Limitation on Designation of Network Resources: The Local Network Customer must demonstrate that it owns or has committed to purchase generation pursuant to an executed contract in order to designate a generating resource as a Network Resource. Alternatively, the Local Network Customer may establish that

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execution of a contract is contingent upon the availability of transmission service under this Schedule 21.

19.3 Use of Interface Capacity by the Network Customer: With the exception of any of VELCO's interfaces with other transmission systems that are designated as constrained interfaces under VELCO's FERC Rate Schedule No. 246, as supplemented, there is no limitation upon a Local Network Customer's use of VELCO's Transmission System at any particular interface to integrate the Local Network Customer's Network Resources (or substitute economy purchases) with its Local Network Loads. However, a Local Network Customer's use of VELCO's total interface capacity with other transmission systems may not exceed the Local Network Customer's Load.

19.4 Network Customer Owned Transmission Facilities: The Local Network Customer that owns existing transmission facilities that are integrated with VELCO's Transmission System may be eligible to receive consideration either through a billing credit or some other mechanism. In order to receive such consideration the Local Network Customer must demonstrate that its transmission facilities are integrated into the plans or operations of VELCO to serve its power and transmission customers. For facilities constructed by the Local Network Customer subsequent to the Service Commencement Date, the Local Network Customer shall receive credit where such facilities are jointly planned and installed

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in coordination with VELCO. Calculation of the credit shall be addressed in either the Local Network Customer's Service Agreement or any other agreement between the Parties.

20 Local Network Load Not Physically Interconnected with VELCO

This section applies to both the initial designation and the subsequent addition of new Local Network Load not physically interconnected with VELCO. To the extent that the Local Network Customer desires to obtain transmission service for a load not connected to VELCO's Transmission System, the Local Network Customer shall have the option of (1) electing to include the entire load as Local Network Load for all purposes under this Schedule 21 and designating Network Resources in connection with such additional Local Network Load, or (2) excluding that entire load from its Local Network Load and purchasing Local Point-To-Point Transmission Service under this Schedule 21. To the extent that the Network Customer gives notice of its intent to add a new Local Network Load as part of its Local Network Load pursuant to this section the request must be made through a modification of service pursuant to a new Application.

21 Load Shedding and Curtailment

21.1 Procedures: Prior to the Service Commencement Date, VELCO and the Local Network Customer shall establish Load Shedding and Curtailment procedures pursuant to the Local Network Operating Agreement with the objective of

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responding to contingencies on VELCO's Transmission System. The Parties will implement such programs during any period when the ISO or VELCO determines that a system contingency exists and such procedures are necessary to alleviate such contingency. If not otherwise notified by the ISO, VELCO will notify all affected Local Network Customers in a timely manner of any scheduled Curtailment.

21.2 Transmission Constraints: During any period when VELCO determines that a transmission constraint exists on VELCO's Transmission System, or that the ISO determines that a transmission constraint exists on the New England Transmission System, and such constraint may impair the reliability of VELCO's Transmission System, VELCO will take whatever actions, consistent with Good Utility Practice, that are reasonably necessary to maintain the reliability of VELCO's Transmission System. To the extent VELCO determines that the reliability of VELCO's Transmission System can be maintained by redispatching resources, VELCO will work with the ISO to initiate procedures pursuant to the Local Network Operating Agreement to redispatch all Network Resources and VELCO's own resources on a least-cost basis without regard to the ownership of such resources. Any redispatch under this section may not unduly discriminate between VELCO's use of VELCO's Transmission System on behalf of its Native Load Customers and any Network Customer's use of VELCO's Transmission System to

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serve its designated Local Network Load.

21.3 Cost Responsibility for Relieving Transmission Constraints: Whenever VELCO implements least-cost redispatch procedures in response to a transmission constraint, VELCO and Local Network Customers will each bear a proportionate share of the total redispatch cost based on their respective Load Ratio Shares.

21.4 Curtailments of Scheduled Deliveries: If a transmission constraint on VELCO's Transmission System or the New England Transmission System cannot be relieved through the implementation of least-cost redispatch procedures and VELCO determines that it is necessary to Curtail scheduled deliveries, the Parties shall Curtail such schedules in accordance with the Local Network Operating Agreement.

21.5 Allocation of Curtailments: Working with the ISO, VELCO shall, on a non-discriminatory basis, Curtail the transaction(s) that effectively relieve the constraint. However, to the extent practicable and consistent with Good Utility Practice, any Curtailment will be shared by VELCO and Local Network Customer in proportion to their respective Load Ratio Shares. VELCO shall not direct the Local Network Customer to Curtail schedules to an extent greater than VELCO would Curtail its own schedules under similar circumstances.

21.6 Load Shedding: To the extent that a system contingency exists on VELCO's Transmission System or the New England Transmission System and VELCO or the ISO determines that it is necessary for VELCO and the Local Network Customer to

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shed load, the Parties shall shed load in accordance with previously established procedures under the Local Network Operating Agreement.

21.7 System Reliability: Notwithstanding any other provisions of the Tariff, VELCO reserves the right, consistent with Good Utility Practice and on a not unduly discriminatory basis, to Curtail Local Network Service without liability on VELCO's part for the purpose of making necessary adjustments to, changes in, or repairs on its lines, substations and facilities, and in cases where the continuance of Local Network Service would endanger persons or property. In the event of any adverse condition(s) or disturbance(s) on VELCO's Transmission System or on any other system(s) directly or indirectly interconnected with VELCO's Transmission System, VELCO, consistent with Good Utility Practice, also may Curtail Local Network Service in order to (i) limit the extent or damage of the adverse condition(s) or disturbance(s), (ii) prevent damage to generating or transmission facilities, or (iii) expedite restoration of service. VELCO will give the Local Network Customer as much advance notice as is practicable in the event of such Curtailment. Any Curtailment of Local Network Service will be not unduly discriminatory relative to VELCO's use of VELCO's Transmission System on behalf of its Native Load Customers. VELCO shall specify the rate treatment and all related terms and conditions applicable in the event that the Local Network Customer fails to respond to established Load Shedding and Curtailment

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procedures.

22 Rates and Charges

The Local Network Customer shall pay VELCO for any Direct Assignment Facilities, Ancillary Services, and applicable study costs, as otherwise described in this Schedule 21 and consistent with Commission policy, and also the following:

22.1 Monthly Demand Charge: The Local Network Customer shall pay a monthly Demand Charge, which shall be determined each month by multiplying its Load Ratio Share for that month times VELCO's Transmission Revenue Requirement for that month as specified in Attachment D of this Schedule 21-VELCO.

22.2 Determination of Network Customer's Monthly Local Network Load: VELCO's monthly Local Network Load is its hourly load (including its designated Local Network Load not physically interconnected) coincident with VELCO's Monthly Transmission System Peak.

22.3 Determination of VELCO's Monthly Transmission System

Load: VELCO's monthly transmission system load is VELCO's Monthly Transmission System Peak minus the coincident peak usage of all Firm Local Point-To-Point Transmission Service customers pursuant to this Schedule 21-VELCO plus the Local Reserved Capacity of all Firm Local Point-To-Point Transmission Service customers.

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22.4 Redispatch Charge: The Local Network Customer shall pay a Load Ratio Share of any redispatch costs allocated between the Local Network Customer and VELCO. To the extent that VELCO incurs an obligation to the Local Network Customer for redispatch costs, such amounts shall be credited against the Local Network Customer's bill for the applicable month.

23 Operating Arrangements

23.1 Operation under The Network Operating Agreement: The Local Network Customer shall plan, construct, operate and maintain its facilities in accordance with Good Utility Practice and in conformance with the Local Network Operating Agreement.

23.2 Network Operating Agreement: The terms and conditions under which the Local Network Customer shall operate its facilities and the technical and operational matters associated with the implementation of this Schedule 21 shall be specified in the Local Network Operating Agreement. The Local Network Operating Agreement shall provide for the Parties to (i) operate and maintain equipment necessary for integrating the Local Network Customer within VELCO's Transmission System (including, but not limited to, remote terminal units, metering, communications equipment and relaying equipment), (ii) transfer data between VELCO and the Local Network Customer (including, but not limited to, heat rates and operational characteristics of Network Resources,

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generation schedules for units outside VELCO's Transmission System, interchange schedules, unit outputs for redispatch, voltage schedules, loss factors and other real time data), (iii) use software programs required for data links and constraint dispatching, (iv) exchange data on forecasted loads and resources necessary for long-term planning, and (v) address any other technical and operational considerations required for implementation of this Schedule 21, including scheduling protocols. The Local Network Operating Agreement will recognize that the Local Network Customer shall either (i) operate as a Control Area under applicable guidelines of the North American Electric Reliability Council (NERC) and the Northeast Power Coordinating Council (NPCC), (ii) satisfy its Control Area requirements, including all necessary Ancillary Services, by contracting with VELCO for Ancillary Service No. 1 , and with the ISO for Ancillary Service Nos. 2 through 7, or (iii) satisfy its Control Area requirements, including all necessary Ancillary Services, by contracting with another entity, consistent with Good Utility Practice, which satisfies NERC and NPCC requirements. VELCO shall not unreasonably refuse to accept contractual arrangements with another entity for Ancillary Services. The Local Network Operating Agreement is included in Attachment C.

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SCHEDULE 1

Scheduling, System Control and Dispatch Service

This service is required to schedule the movement of power through, out of, within, or into a Control Area. This service can be provided only by the operator of the Control Area in which the transmission facilities used for transmission service are located. Scheduling, System Control and Dispatch Service is to be provided by VELCO making arrangements with the ISO to perform this service for VELCO's Transmission System. The Transmission Customer must purchase this service from VELCO. To the extent the ISO performs this service for VELCO, charges to the Transmission Customer are to reflect only a pass-through of the costs charged to VELCO by the ISO. The Load Dispatching Revenue Requirement, as defined in this Schedule 1, will reflect VELCO's costs for its Load Dispatching. No subtransmission or distribution costs may be included in the Load Dispatching Revenue Requirement. The Load Dispatching Revenue Requirement will be a monthly calculation based on actual costs for the month subject to corrective adjustments after rendition. The calculation is set forth below:

The Load Dispatching Revenue Requirement shall equal the sum of Vermont Electric's (A) Load Dispatching Cost, plus or minus (B) Billing Adjustment.

- A. Load Dispatching Cost shall equal VELCO's total load dispatching expense as recorded in FERC Account No. 561.
- B. Billing Adjustment shall equal the difference in the actual cost of Load Dispatching for the two months

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VELCO

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SCHEDULE 2

**Reactive Supply and Voltage Control
from Generation Sources Service**

In order to maintain transmission voltages on VELCO's Transmission System within acceptable limits, generation facilities under the control of the ISO are operated to produce (or absorb) reactive power. Thus, Reactive Supply and Voltage Control from Generation Sources Service must be provided for each transaction on VELCO's transmission facilities. The amount of Reactive Supply and Voltage Control from Generation Sources Service that must be supplied with respect to the Transmission Customer's transaction will be determined based on the reactive power support necessary to maintain transmission voltages within limits that are generally accepted in the region and consistently adhered to by VELCO. Reactive Supply and Voltage Control from Generation Sources Service is to be provided by the ISO. The Transmission Customer must purchase this service from the ISO. To the extent the ISO performs this service for VELCO, charges to the Transmission Customer are to reflect only a pass-through of the costs charged to VELCO by the ISO.

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SCHEDULE 3

Regulation and Frequency Response Service

Regulation and Frequency Response Service (Automatic Generator Control) is necessary to provide for the continuous balancing of resources (generation and interchange) with load and for maintaining scheduled interconnection frequency at sixty cycles per second (60 Hz). Regulation and Frequency Response Service (Automatic Generator Control) is accomplished by committing on-line generation whose output is raised or lowered (predominantly through the use of automatic generating control equipment) as necessary to follow the moment-by-moment changes in load. When the transmission service is used to serve load connected to VELCO's Transmission System, the Transmission Customer must make arrangements to satisfy its Regulation and Frequency Response Service obligation.

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SCHEDULE 4

Energy Imbalance Service

Energy Imbalance Service is provided when a difference occurs between the scheduled and the actual delivery of energy to a load located within a Control Area over a single hour.

When transmission service is used to serve load connected to VELCO's Transmission System, the Transmission Customer must make arrangements with the ISO to satisfy its Energy Imbalance Service obligation.

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SCHEDULE 5

Operating Reserve - Spinning Reserve Service

Operating Reserve - Spinning Reserve Service is needed to serve load immediately in the event of a system contingency. Operating Reserve – Spinning Reserve Service may be provided by generating units that are on-line and loaded at less than maximum output. When the transmission service is used to serve load connected to VELCO's Transmission System, the Transmission Customer must make arrangements with the ISO to satisfy its Operating Reserve – Spinning Reserve Service obligation.

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SCHEDULE 6

Operating Reserve - Supplemental Reserve Service

Operating Reserve - Supplemental Reserve Service is needed to serve load in the event of a system contingency; however, it is not available immediately to serve load but rather within a short period of time. Operating Reserve - Supplemental Reserve Service may be provided by generating units that are on-line but unloaded, by quick-start generation or by interruptible load. When transmission service is used to serve load connected to VELCO's Transmission System, the Transmission Customer must make arrangements with the ISO to satisfy its Operating Reserve - Supplemental Reserve Service obligation.

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SCHEDULE 7

**Long-Term Firm and Short-Term Firm
Local Point-To-Point Transmission Service**

The Transmission Customer shall compensate VELCO each month for Local Reserved

Capacity at the sum of the applicable charges set forth below:

- 1) **Yearly delivery charge:** the same charge as for monthly delivery per MW of Local Reserved Capacity per month.
- 2) **Monthly delivery charge:** the revenue requirement for that month divided by the coincident peak demand for that month per MW of Local Reserved Capacity per month.
- 3) **Weekly delivery charge:** the charge for monthly delivery multiplied by twelve (12) and divided by fifty-two (52) per MW of Local Reserved Capacity per week.
- 4) **Daily delivery charge:** the charge for weekly delivery divided by five (5) per MW of Local Reserved Capacity per day. The total demand charge in any week, pursuant to a reservation for daily delivery, shall not exceed the rate specified in section (3) above times the highest amount in megawatts of Local Reserved Capacity in any day during such week.
- 5) **Discounts:** Three principal requirements apply to discounts for transmission service as follows (1) any offer of a discount made by VELCO must be announced to all Eligible Customers solely by posting on the OASIS, (2) any customer-initiated requests for discounts (including requests for use by one's wholesale merchant or an affiliate's use)

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must occur solely by posting on the OASIS, and (3) once a discount is negotiated, details must be immediately posted on the OASIS. For any discount agreed upon for service on a path, from point(s) of receipt to point(s) of delivery, VELCO must offer the same discounted transmission service rate for the same time period to all Eligible Customers on all unconstrained transmission paths that go to the same point(s) of delivery on VELCO's Transmission System.

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SCHEDULE 8

Non-Firm Local Point-To-Point Transmission Service

The Transmission Customer shall compensate VELCO for Non-Firm Local Point-To-Point Transmission Service up to the sum of the applicable charges set forth below:

- 1) **Monthly delivery charge:** the revenue requirement for that month divided by the coincident peak demand for that month per MW of Local Reserved Capacity per month.
- 2) **Weekly delivery charge:** the charge for monthly delivery multiplied by twelve (12) and divided by fifty-two (52) per MW of Local Reserved Capacity per week.
- 3) **Daily delivery charge:** the charge for weekly delivery divided by five (5) per MW of Local Reserved Capacity per day. The total demand charge in any week, pursuant to a reservation for daily delivery, shall not exceed the rate specified in section (2) above times the highest amount in megawatts of Reserved Capacity in any day during such week.
- 4) **Hourly delivery charge:** The basic charge shall be that agreed upon by the Parties at the time this service is reserved and in no event shall exceed the charge for daily delivery divided by sixteen (16) per MWH. The total demand charge in any day, pursuant to a reservation for hourly delivery, shall not exceed the rate specified in section (3) above times the highest amount in megawatts of Local Reserved Capacity in any hour during such day. In addition, the total demand charge in any week, pursuant to a reservation for hourly delivery, shall not exceed the rate specified in section (2) above times the highest amount in megawatts of Local Reserved Capacity in any hour during such week.

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- 5) **Discounts:** Three principal requirements apply to discounts for transmission service as follows (1) any offer of a discount made by VELCO must be announced to all Eligible Customers solely by posting on the OASIS, (2) any customer-initiated requests for discounts (including requests for use by one's wholesale merchant or an affiliate's use) must occur solely by posting on the OASIS, and (3) once a discount is negotiated, details must be immediately posted on the OASIS. For any discount agreed upon for service on a path, from point(s) of receipt to point(s) of delivery, VELCO must offer the same discounted transmission service rate for the same time period to all Eligible Customers on all unconstrained transmission paths that go to the same point(s) of delivery on VELCO's Transmission System.

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SCHEDULE 9

Generator Interconnection

As part of the generator interconnection service that VELCO provides a generator that interconnects with VELCO's Transmission System, VELCO shall receive capacity and/or energy from the generator at the Point of Receipt, which shall be designated as the point at which the generating unit interconnects with VELCO's Transmission System, and transmit such capacity and/or energy to the Point of Delivery, which shall be designated as the closest point where VELCO's Transmission System interconnects with the PTF system. The charges for generator interconnection service, which are stated on a case-by-case basis in the applicable interconnection agreement, shall not include any on-going charge for the transmission of capacity and/or energy from the Point of Receipt to the Point of Delivery as described hereinabove.

Interconnection service does not include any form of delivery service taken under the Tariff by a generator or any other customer. Nothing in this Schedule 9 eliminates, limits, reduces or otherwise impairs VELCO's right to assess applicable charges for delivery services taken by a generator or any other customer.

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ATTACHMENT A

Methodology To Assess Available Transmission Capability

Available Transmission Capability (ATC) for transactions relating to VELCO's Transmission System will be determined for a point-to-point path in the direction of transfer and will be equal to the lower of (i) the Firm Point-To-Point ATC associated with the contractual limitations to the contract path due to Transmission Interface Allocation Agreements applicable to VELCO's Non-Pool Transmission Facilities, or (ii) the Firm Point-To-Point ATC associated with the physical limitations related to the actual flow of power over VELCO's Non-Pool Transmission Facilities that results from a transaction. The criteria, standards and guides referenced below are contained in the FERC Form 715 filings of VELCO and the ISO.

Contractual Limitations

Firm Point-To-Point ATC associated with contractual limitations will be determined by the transmission interfaces that have Transmission Interface Allocation Agreements and are utilized by the contract path. Transmission Interface Allocation Agreements have been established for certain of the jointly owned interfaces in New England. The purpose of Transmission Interface Allocation Agreements, which are on file with FERC, is to allocate the capacity of the associated interfaces between the joint owners in a fair and equitable manner.

Physical Limitations

In addition to the limitations to Firm Point-To-Point ATC associated with contractual limitations, Firm Point-To-Point ATC for transactions relating to VELCO's Non-Pool Transmission Facilities can be limited by physical limitations associated with the actual power flow that results from a transaction. The Firm Point-To-Point ATC for a given transaction relating to VELCO's Non-Pool Transmission Facilities will be equal to that of the interface or transmission facility which is utilized by the actual power flow and has the least Firm Point-To-Point ATC for each interface (or transmission facility) included in VELCO's Non-Pool Transmission Facilities is equal to the Total Firm Transfer Capability of that interface (or transmission facility) minus the physical usage of the interface (or transmission facility) by the

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Issued on: December 22, 2004

By:

Title:

Dated:

Issued by: Thomas N. Wies Effective: With notice, on or after June 20, 2006
Vice President, Secretary and General Counsel
VELCO
Issued on: April 21, 2006

Revenue received from the ISO, plus or minus (M) Billing Adjustment.

Definitions

- A. Return and Income Taxes shall equal the sum of VELCO's Rate of Return, Cost of Capital, and Income Taxes.
1. Rate of Return shall equal on an annual basis: 12.8 percent of the par value of VELCO's outstanding Class B Common Stock, all as shown by VELCO's books as of the beginning of such month. The above rates shall not change from month to month, but may be modified in a proceeding initiated pursuant to the Federal Power Act.
 2. Cost of Capital shall equal all fixed charges, including interest and amortization of debt discount and expense and premium on debt as recorded in FERC Account Nos. 419,427,428,431,432.
 3. Income Taxes shall equal VELCO's income taxes including taxes on or measured by income as recorded in FERC Account Nos. 409-411.
- B. Depreciation Expense shall equal VELCO's Depreciation Expense for Transmission Plant and General Plant as recorded in FERC Account Nos. 403 and 404.
- C. Amortization of Loss on Reacquired Debt shall equal VELCO's Amortization of the balance on Loss on Reacquired Debt as recorded in FERC Account No. 428.1.
- D. Municipal Tax Expense shall equal VELCO's total municipal tax expense as recorded in FERC Account No. 408.1.
- E. Payroll Tax Expense shall equal VELCO's total electric payroll tax expense as recorded in FERC Account No. 408.1.

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- F. Operation and Maintenance Expense shall equal VELCO's expenses as recorded in FERC Account Nos. 560, 562-564 and 566-573 and shall exclude any Transmission Support Expense recorded in FERC Account No. 567.
- G. Administrative and General Expense shall equal VELCO's expenses as recorded in FERC Account Nos. 920-935.
- H. Transmission Support Revenues shall equal VELCO's revenue received for Transmission Support.
- I. Transmission Support Expenses shall equal VELCO's expenses as recorded in FERC Account No. 567.
- J. Short-Term Transmission Service shall equal any revenues received from transmission customers as payment for short-term point-to-point transmission service taken pursuant to Schedule 7 of this Schedule 21-VELCO.
- K. Rents received from Electric property shall equal VELCO's rents received for the use by others of land, buildings, and other property devoted to electric operations as recorded in FERC Account No. 454.
- L. Revenue Received from the ISO shall equal revenue received under the terms of the Tariff minus any incremental revenues associated with FERC-approved adders for RTO participation and new transmission.
- M. Billing Adjustment shall equal the difference in the actual cost of transmission for the two month previous minus the Revenue Received for two months previous. In the event that

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the FERC accounts listed above are renumbered, renamed, or otherwise modified, the above sections shall be deemed amended to incorporate such renumbered, renamed, modified or additional accounts.

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ORIGINAL SHEET NOS 3657 THROUGH 3799
ARE INTENTIONALLY BLANK

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