
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
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2 [RESERVED]

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 with the ISO, and the Transmission Customer is required to purchase or otherwise obtain, the following Ancillary Services: (i) Scheduling, System Control and Dispatch. VELCO does not offer or provide any other ancillary services.

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

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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

VELCO's Creditworthiness Policy is provided in Attachment L of this Schedule 21-VELCO.

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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 transfer 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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SCHEDULE 2

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SCHEDULE 3

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SCHEDULE 4

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SCHEDULE 5

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SCHEDULE 6

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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.

- 6) **Resales:** The rates and rules governing charges and discounts shall not apply to resales of transmission service, compensation for which shall be governed by § I.11(a) of Schedule 21.

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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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SCHEDULE 9

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ATTACHMENT A

Methodology To Assess Available Transfer Capability

VELCO uses a contract path method to calculate Available Transfer 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. VELCO does not use Capacity Benefit Margin or Transmission Reserve Margin.

Firm ATC for an interface is the capability for firm transmission reservations that remain after allowing for existing firm commitments (Firm ATC = TTC – Existing Firm Commitments).

Non-Firm ATC for an interface is the capability for non-firm transmission reservations that remains after allowing for all existing commitments (Non-Firm ATC = TTC-All Existing Firm and Non-Firm Commitments).

Basic information on ATC and TTC may be found at VELCO's website at:
<http://www.velco.com/Templates/default.asp?pageId=7>

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

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actual power flows associated with existing and all valid pending requests for firm transmission service.

The Total Firm Transfer Capability of each interface (or transmission facility) is determined by the physical limitations imposed by thermal, voltage and stability reliability concerns. To determine these physical limitations in each direction of transfer, computer simulations are performed by using industry accepted power system analysis software. These simulations are performed by starting with minimal transfers across the interface and then incrementing the power flow in the direction of the desired transfer limit until either:

- (i) the First Contingency Total Transfer Capability (FCTTC) is reached by violating the NPCC "Basic Criteria for Design and Operation of Interconnected Power Systems," or the ISO Operating Procedures; or
- (ii) loads fully dependent on VELCO's Transmission System and receiving firm transmission service cannot be served reliably in accordance with VELCO's applicable reliability standards.

The incrementing of transfers will be accomplished by increasing the generation on the side of the interface (or transmission facility) that the transfers are emanating from decreasing the generation on the other side of the interface (or transmission facility). When determining the Total Firm Transfer Capability of an interface or facility by simulation, generation located within the ISO Control Area will be re-dispatched as necessary within applicable reliability standards to maximize that capability.

Due to the unique nature of ISO being a centrally dispatched power pool with free flowing interconnection between participants and "own load dispatch" bilateral transactions, VELCO must exercise care when determining the actual power flow that will result from a transaction. The following principles, addressing variations in the nature of the generation resources and load, will be taken into account in considering power flows that will result from a transaction when evaluating the ATC associated with physical limitations:

Existing ISO Generation Serving ISO Load: This type of transaction involves serving load within the ISO from existing resources subject to the ISO's economic dispatch. These transactions only affect the "own load dispatch" of ISO participants involved in the transaction. No change in physical power flow results from these transactions.

Either Non-ISO or New ISO Generation Serving ISO Load: This type of transaction involves serving load within the ISO from either (i) new generating resources, or (ii) existing generation resources not subject to the ISO's economic dispatch. This type of

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transaction will result in power flowing from the location of the generation resources to ISO load as a whole.

Existing ISO Generation Serving Non-ISO Load: This type of transaction involves serving load outside of the ISO from existing generating resources subject to the ISO's economic dispatch. This type of transaction will result in power flowing from ISO dispatched generation as a whole to the location of the loads ultimately served by the transaction.

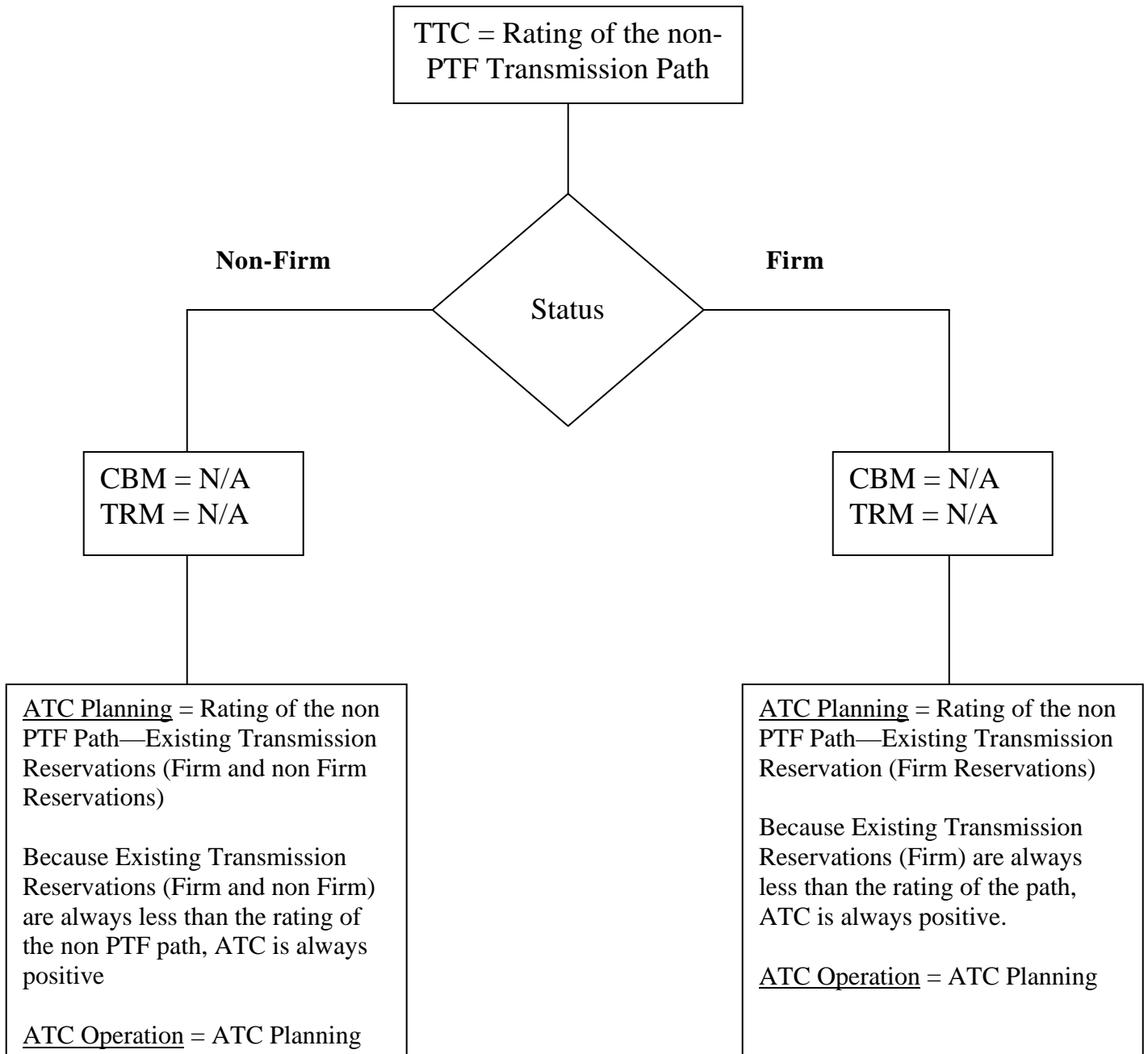
Either Non- ISO or New ISO Generation Serving Non-ISO Load: This type of transaction involves serving load outside of the ISO from either (i) new generating resources, or (ii) existing generation resources not subject to the ISO's economic dispatch. This type of transaction will result in power flowing from the generation resources to the location of the loads ultimately served by the transaction.

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Non-PTF Transmission Path ATC Process Flow Diagram



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ATTACHMENT B

Methodology for Completing a System Impact Study

VELCO (or its designated agent) or the ISO may require System Impact Studies for the purpose of determining the feasibility of providing Long Term Firm Local Point-To-Point Transmission Service, integrating Network Resources or integrating Local Network Load for Transmission Customers (or Local Network Customers) under Schedule 21 of the Tariff. All System Impact Studies performed by VELCO will be completed using the same method employed by VELCO to provide firm transmission service to Purchasers under VELCO's FERC Rate Schedule No. 246, as supplemented. Specifically, System Impact Studies will be performed by applying NPCC Criteria and the "Reliability Standards of the New England Power Pool" while assuring that those loads fully dependent on VELCO's Transmission System that are receiving firm transmission service can be served reliably in accordance with VELCO's applicable reliability standards. The criteria, standards and guidelines referenced above are included as part of VELCO's annual FERC Form 715 filing.

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ATTACHMENT C

Local Network Operating Agreement

This Local Network Operating Agreement is made this ____ day of _____, 20__,
by and between Vermont Electric Power Company, Inc. ("VELCO"), and
_____ ("Local Network Customer").

WHEREAS, VELCO has determined that the Local Network Customer has made a valid
request for Local Network Service in accordance with Schedule 21 of the Tariff; and

WHEREAS, the Local Network Customer has represented that it is an Eligible Customer
qualified to take service under the Tariff,

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein
contained, the Parties hereto agree as follows:

1. General Terms and Conditions

This Local Network Operating Agreement is an implementing agreement for Local
Network Service under VELCO's Tariff and is subject to the Tariff, as the Tariff is in effect at the
time this Agreement is executed or as the Tariff thereafter may be amended. The Tariff as it
currently exists or is hereafter amended is incorporated herein by reference. In the case of any
conflict between this Local Network Operating Agreement and the Tariff, the Local Network
Operating Agreement shall control.

VELCO agrees to provide transmission service to the Local Network Customer's equipment
or facilities, subject to the Local Network Customer operating its facilities in accordance with

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applicable criteria, rules, standards, procedures, or guidelines of VELCO, its Affiliates, the ISO, and the Northeast Power Coordinating Council ("NPCC"), as they may be adopted and/or amended from time to time. In addition to those requirements, service to the Local Network Customer's equipment or facilities is provided subject to the following specified terms and conditions.

- a. Electrical Supply: The electrical supply to the Point(s) of Delivery shall be in the form of three-phase sixty hertz alternating current at a voltage class determined by mutual agreement of the parties.
- b. Coordination of Operations: VELCO shall consult with the Local Network Customer regarding timing of scheduled maintenance of VELCO's Transmission System. In the event of a curtailment of service or the implementation of load shedding procedures, VELCO shall use due diligence to resume delivery of electric power as quickly as possible.

2. Reporting Obligations

a. The Local Network Customer shall be responsible for providing all information required by the ISO and NPCC and by VELCO's dispatching functions. The Local Network Customer shall respond promptly and completely to VELCO's requests for information, including but not limited to data necessary for operations, maintenance, regulatory requirements and analysis. In particular, that information may include:

- i. For Local Network Loads: 10-year annual peak load forecast; load power factor performance; load shedding capability; under frequency load shedding capability; disturbance/interruption reports; protection system setting

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conformance; system testing and maintenance conformance; planned changes to protection systems; metering testing and maintenance conformance; planned changes in transformation capability; conformance to harmonic and voltage fluctuation limits; dead station tripping conformance; and voltage reduction capability conformance.

- ii. For Network Resources and interconnected generators: 10 year forecast of generation capacity retirements and additions; generator reactive capability verification; generator under frequency relaying conformance; protection system testing and maintenance conformance; planned changes to protection system; and planned changes to generation parameters.
- b. The Local Network Customer shall supply accurate and reliable information to VELCO regarding metered values for MW, MVAR, volt, amp, frequency, breaker status indication, and all other information deemed necessary by VELCO for safe and reliable operation. Information shall be gathered for electronic communication using one or more of the following: supervisory control and data acquisition ("SCADA"), remote terminal unit ("RTU") equipment, and remote access pulse recorders ("RAPR"). All equipment used for metering, SCADA, RTU, RAPR, and communications must be approved by VELCO.

3. Operational Obligations

The Local Network Customer shall request permission from VELCO prior to opening and/or closing circuit breakers in accordance with applicable switching and operating procedures.

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The Local Network Customer shall carry out all switching orders from VELCO, VELCO's Designated Agent, or the ISO in a timely manner.

- a. The Local Network Customer shall balance the load at the Point(s) of Delivery such that the differences in the individual phase currents are acceptable to VELCO.
- b. The Local Network Customer's equipment shall conform with harmonic distortion and voltage fluctuation standards of VELCO.
- c. The Local Network Customer's equipment must comply with all environmental requirements to the extent they impact the operation of VELCO's system.
- d. The Local Network Customer shall operate all of its equipment and facilities connected to VELCO's system in a safe and efficient manner and in accordance with manufacturers' recommendations, Good Utility Practice, applicable regulations, and requirements of VELCO, the ISO, NPCC, the National Electric Safety Code and the National Electric Code.
- e. The Local Network Customer is responsible for supplying voltage regulation equipment on its subtransmission and distribution facilities.

4. Notice of Transmission Service Interruptions

If at any time, in the reasonable exercise of VELCO's judgment, operation of the Local Network Customer's equipment adversely affects the quality of service or interferes with the safe and reliable operation of the system, VELCO may discontinue transmission service until the condition has been corrected. Unless VELCO perceives that an emergency exists or the risk of an

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emergency is imminent, VELCO shall give the Local Network Customer reasonable notice of its intention to discontinue transmission service and, where practical, allow suitable time for the Local Network Customer to remove the interfering condition. VELCO's judgment with regard to the discontinuance of service under this paragraph shall be made in accordance with Good Utility Practice. In the case of such discontinuance, VELCO shall immediately confer with the Local Network Customer regarding the conditions causing such discontinuance and its recommendation concerning timely correction thereof.

5. Access and Control

Properly accredited representatives of VELCO shall at all reasonable times have access to the Local Network Customer's facilities to make reasonable inspections and obtain information required in connection with Schedule 21 of the Tariff. Such representatives shall make themselves known to the Local Network Customer's personnel, state the object of their visit, and conduct themselves in a manner that shall not interfere with the construction or operation of the Local Network Customer's facilities. VELCO shall have control such that it may open or close the circuit breaker or disconnect and place safety grounds at the Point(s) of Delivery, or at the station, if the Point(s) of Delivery is remote from the station.

6. Point(s) of Delivery

Local Network Service shall be provided by VELCO to the Point(s) of Delivery as specified by the Local Network Customer in accordance with the Tariff.

7. Maintenance of Equipment

-
- a. Unless otherwise agreed, VELCO shall own all metering equipment.
 - b. The Local Network Customer shall maintain all of its equipment and facilities connected to VELCO's system in a safe and efficient manner and in accordance with manufacturers' recommendations, Good Utility Practice, applicable regulations and requirements of VELCO, the ISO and NPCC.
 - c. VELCO may request that the Local Network Customer test, calibrate, verify or validate the data link, metering, data acquisition, transmission, protective, or other equipment or software owned by the Local Network Customer, consistent with the Local Network Customer's routine obligation to maintain its equipment and facilities or for the purposes of investigating potential problems on the Local Network Customer's facilities. The Local Network Customer shall be responsible for the cost to test, calibrate, verify or validate the equipment or software.
 - d. The Transmissions Provider shall have the right to inspect the tests, calibrations, verifications and validations of the Local Network Customer's data link, metering, data acquisition, transmission, protective, or other equipment or other software connected to VELCO's system.
 - e. The Local Network Customer, at VELCO's request, shall supply VELCO with a copy of the installation, test, and calibration records of the data link, metering, data acquisition, transmission, protective or other equipment or software owned by the Local Network Customer and connected to VELCO's system.

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f. VELCO shall have the right, at the Local Network Customer's expense, to monitor the factory acceptance test, the field acceptance test, and the installation of any metering, data acquisition, transmission, protective or other equipment or software owned by the Local Network Customer and connected to VELCO's system.

8. Emergency System Operations

a. The Local Network Customer's equipment and facilities, etc. shall be subject to all applicable emergency operation standards required of and by VELCO to operate in an interconnected transmission network.

b. VELCO reserves the right to take whatever actions or inactions it deems necessary during emergency operating conditions to: (i) preserve the integrity of VELCO's Transmission System, (ii) limit or prevent damage, (iii) expedite restoration of service, or (iv) preserve public safety.

9. Cost Responsibility

The Local Network Customer shall be responsible for all costs incurred by VELCO relative to the Local Network Customer's facilities. Appropriate costs may be allocated to more than one Local Network Customer, in a manner within the reasonable discretion of VELCO.

10. Additional Operational Obligations of Local Network Customer

a. Voltage or Reactive Control Requirements:

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- i. Unless directed otherwise by VELCO, the Local Network Customer shall ensure that all generating facilities designated as Network Resources are operated with an automatic voltage regulator(s). The Local Network Customer shall ensure that the voltage regulator(s) control voltage at the Point(s) of Receipt consistent with the range of voltage scheduled by VELCO, VELCO's agent or the ISO.
 - ii. At the discretion of VELCO, VELCO's Designated Agent or the ISO, the Local Network Customer may be directed to deactivate the automatic voltage regulator and to supply reactive power in accordance with a schedule which shall be provided by VELCO, VELCO's Designated Agent or the ISO, and in such event the Local Network Customer shall act in accordance with such direction.
 - iii. If the Local Network Customer does not have sufficient installed capacity in generating facilities designated as Network Resources to enable the Local Network Customer to operate such facilities consistent with recommendations of VELCO, or if Network Resources fail to operate at such capacity, VELCO or VELCO's Designated Agent may install, at the Local Network Customer's expense, reactive compensation equipment necessary to ensure the proper voltage or reactive supply at the Point(s) of Receipt.
- b. Station Service: When generating facilities designated as Network Resources are producing electricity, the Local Network Customer shall supply its own station service

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power. If and when the Local Network Customer's generation facility is not producing electricity, the Local Network Customer shall obtain station service capacity and energy from the franchise utility providing service or other source.

c. Protection Requirements: Protection requirements are defined in VELCO's standard interconnection contract and in and NPCC documents as may be adopted or amended from time to time.

d. Operational Obligations:

i. The ISO may require that generation facilities designated as Network Resources be equipped for Automatic Generation Control ("AGC"). The Local Network Customer shall be responsible for all costs associated with installing and maintaining an AGC system on applicable Network Resources.

ii. VELCO retains the right to require reduced generation at times when system conditions present transmission restrictions or otherwise adversely affect VELCO's other customers. VELCO shall use due diligence to resolve the problems to allow the generator to return to the operating level prior to VELCO's notice to reduce generation.

iii. All operations (including start-up, shutdown and determination of hourly generation) shall be coordinated with the ISO, VELCO or VELCO's Designated Agent.

e. Coordination of Operations:

i. The Local Network Customer shall furnish VELCO with generator annual

- maintenance schedules for all Network Resources and shall advise VELCO if a Network Resource is capable of participation in system restoration and/or if it has black start capability.
- ii. VELCO reserves the right to specify turbine and/or generator control (e.g., droop) settings as determined by the System Impact or Facilities Study or subsequent studies. The Local Network Customer agrees to comply with such specifications by VELCO at the Local Network Customer's expense.
- iii. If the generator is not dispatchable by the ISO, the Local Network Customer shall notify VELCO at least 48 hours in advance of its intent to take its resource temporarily off-line and its intent to resume generation. In circumstances such as forced outages, the Local Network Customer shall notify VELCO as promptly as possible of the Network Resource's temporary interruption of generation and/or transmission.
- f. Power Factor Requirement: The Local Network Customer agrees to maintain an overall Load Power Factor and reactive power supply within predefined sub-areas as measured at the Point(s) of Delivery within ranges specified by VELCO or ISO criteria, rules and standards which identify the power factor levels that must be maintained throughout the applicable sub-area for each anticipated level of total ISO load. The Local Network Customer agrees to maintain Load Power Factor and reactive power requirements within the range specified by VELCO or the ISO, as appropriate for the sub-area based on total ISO

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load during that hour. The ISO may revise the power factor limits required from time to time. If the Local Network Customer lacks the capability to maintain the Load Power Factor within the ranges specified, VELCO may install, at the Local Network Customer's expense, reactive compensation equipment necessary to ensure proper load power factor at the Point(s) of Delivery.

- g. Protection Requirement: The Local Network Customer's relay and protection systems must comply with all applicable VELCO, ISO and NPCC criteria, rules, procedures, guidelines, standards or requirements as may be adopted or amended from time to time.
- h. Operational Obligation: The Local Network Customer shall be responsible for operating and maintaining security of its electric system in a manner that avoids adverse impact to VELCO's or other's interconnected systems and complies with all applicable VELCO, ISO and NPCC operating criteria, rules, procedures, guidelines and interconnection standards as may be amended or adopted from time to time. These actions include, but are not limited to: Voltage Reduction Load Shedding; Under Frequency Load Shedding, Block Load Shedding; Dead Station Tripping; Transferring Load Between Point(s) of Delivery; Implementing Voluntary Load Reductions Including Interruptible Customers; Starting Stand-by Generation; Permitting VELCO Controlled Service Restoration Following Supply Delivery Contingencies on VELCO Facilities.

11. Failure to perform

If the Local Network Customer fails to carry out its obligations under this Agreement, the

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matter shall be subject to the dispute resolution procedures of the Tariff.

The Parties whose authorizing signatures appear below warrant that they shall abide by the foregoing terms and conditions.

VERMONT ELECTRIC POWER COMPANY, INC.

By:

Title:

Dated:

(name of Local Network Customer)

By:

Title:

Dated:

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VELCO

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ATTACHMENT D
Transmission Revenue Requirement
For Local Network Integration Transmission Service

VELCO owns and operates transmission facilities which are used to provide transmission service only. VELCO does not own or operate any generation or distribution facilities. VELCO only incurs transmission-related costs. Accordingly, there is no need to allocate a transmission-related portion of what otherwise would be considered a general expense. For the same reason, there is no need to refer to specific costs in the formula as "transmission-related."

The Transmission Revenue Requirement calculated below reflects all costs that VELCO incurs in connection with VELCO's Transmission System. Generation and distribution costs are not included in the Transmission Revenue Requirement. The Transmission Revenue Requirement for a particular month will be based on the most recent monthly data available at that time (which typically will be data from two months earlier). To the extent the charges for a particular month result in an over-recovery or under-recovery of VELCO's actual costs, an adjustment will be made to VELCO's Transmission Revenue Requirement as soon as possible (typically two months later when the specific data regarding the over- or under-recovery becomes available).

The calculation is set forth below:

The Transmission Revenue Requirement shall equal the sum of VELCO's: (A) Return and Income Taxes, (B) Depreciation Expense, (C) Amortization of Loss on Reacquired Debt, (D) Municipal Tax Expense, (E) Payroll Tax Expense, (F) Operation and Maintenance Expense, (G) Administrative and General Expense, minus (H) Support Revenue, plus (I) Support Expense,

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minus (J) Short-Term Transmission Service and (K) Rents received from Electric property and (L)
Revenue received from the ISO, plus or minus (M) Billing Adjustment.

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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: 11.14 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.

Issued By: Neal Robinson
CFO and Treasurer
VELCO

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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

Issued By: Gerald F. Spring
CFO and Treasurer
VELCO

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Issued On: December 22, 2004

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.

Issued By: Gerald F. Spring
CFO and Treasurer
VELCO

Effective: With notice, on or after February 1, 2005

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ATTACHMENT L

Creditworthiness Procedures

I. Overview

This provision is applicable to any Transmission Customer taking transmission or interconnection service (referred to as “Service” or “Services”) under ISO New England Inc., FERC Electric Tariff No. 3, Section II—Open Access Transmission Tariff Schedule 21-VTransco (the “Tariff”). The creditworthiness of each Transmission Customer must be established before receiving Service from VTransco. A credit review shall be conducted for each Transmission Customer not less than annually or upon reasonable request by the Transmission Customer. VTransco shall make this credit review in accordance with procedures based on specific quantitative and qualitative criteria to determine the level of secured and unsecured credit required from the Transmission Customer. A summary of VTransco’s Creditworthiness Requirements are described in this Attachment L, and posted on its website at <http://www.velco.com/Files/about%20velco/Creditworthiness.pdf>.

Upon receipt of a customer’s information, VTransco will review it for completeness and will notify the customer if additional information is required. Upon completion of an evaluation of a customer under this Policy, VTransco will forward a written evaluation if the customer is required to provide Financial Assurance.

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II. Financial Information:

- A) Transmission Customers requesting Service may be required to submit, if available, the following information:
- 1) All current credit rating reports from commercially accepted credit rating agencies including Standard and Poor's, Moody's Investors Service, and Fitch Ratings, and
 - 2) Audited financial statements by a registered independent auditor for the two most recent years, or the period of its existence, if shorter than two years.

III. Quantitative and Qualitative Standards for Creditworthiness Determination:

- A) Transmission Customers, rated and un-rated, will be required to meet specific quantitative creditworthiness requirements, as detailed below:
- 1) To qualify for unsecured credit, the Transmission Customer must meet at least one of the following criteria:
 - (i) the Transmission Customer must not be in default of any payment obligation under the Tariff; and
 - (ii) if rated, the Transmission Customer must meet one of the following criteria:
 - (a) the Transmission Customer has been in business at least one year and has a senior secured credit rating of at least Baa1 (Moody's) or BBB+ (Standard & Poors); or
 - (b). The Transmission Customer's parent company meets the criteria

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set out in (a) above, and the parent company provides a written guarantee that the parent company will be unconditionally responsible for all financial obligations associated with the Transmission Customer's receipt of Service.

- (iii) if unrated or if rated below the BBB+/Baa1, as stated in (ii), the Transmission Customer must meet all of the following for the last 4 quarters, or the last 2 years if quarterly information is not available:
- (a) A Current Ratio of at least 2.0 times (current assets divided by all current liabilities);
 - (b) A Total Capitalization Ratio of less than 55% debt, defined as total debt (including all capitalized leases and all short-term borrowings) divided by the sum of total shareholders' equity plus total debt;
 - (c) EBITDA-to-Fixed Charge Ratio of at least 3.0 times, defined as earnings before interest, taxes, depreciation and amortization divided by fixed charges (interest on debt as defined in Total Capitalization Ratio above plus preferred dividends on any outstanding preferred equity); and
 - (d) Unqualified audit opinions in audited financial statements provided; or

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- (e) The Transmission Customer's parent company meets the criteria set out in (a) through (d) above, and the parent company provides a written guarantee that the parent company will be unconditionally responsible for all financial obligations associated with the Transmission Customer's receipt of Service.

B) Qualitative Standards for Creditworthiness Determination:

In conjunction with the quantitative standards above, VTransco will consider qualitative standards when determining creditworthiness, such as:

- 1) Years in business: a company in business fewer than five years will be considered a greater risk.
- 2) Management's experience in the industry: a management team with an average of less than five year's experience will be considered a greater risk.
- 3) Market risk: consideration of pricing exposure, credit exposures, and operational exposures.
- 4) Litigation Risk: a pending legal action with potential monetary damages approaching 3% of gross revenues will be considered as significantly increasing company risk.
- 5) Regulatory Environment (State and Local): a company subject to significant exposure to regulatory decisions, such as key planning decisions, shall be considered as having increased risk.

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- 6) Prior payment history with other Transmission Providers or other vendors: a company with an excellent payment history of greater than or equal to five years shall be considered a lesser risk.

IV. Financial Assurance:

A) If the Transmission Customer does not meet the Creditworthiness Requirements, then VT Transco may require the Transmission Customer to provide additional Financial Assurance by complying with one of the following:

- 1) for Service for one month or less, the Transmission Customer shall pay to VTransco or place in an escrow account that is accessible to VTransco the total charge for Service by the later of five business days prior to the commencement of Service or the time when it makes the request for Service; or
- 2) for Service of greater than one month, the Transmission Customer shall pay to VTransco or place in an escrow account that is accessible to VTransco the charge for each month's Service not less than five business days prior to the beginning of the month. For Network Integration Transmission Service Customers, the advance payment for each month shall be based on a reasonable estimate by VTransco of the charge for that month.
- 3) not less than five days prior to the commencement of Service, the Transmission Customer shall provide an unconditional and irrevocable Letter of Credit (as defined below) from a financial institution reasonably acceptable to VTransco or

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an alternative form of security proposed by the Transmission Customer and acceptable to VTransco and consistent with commercial practices established by the Uniform Commercial Code that is equal to the lesser of the total charge for Service or the charge for 90 days of service.

- (i) “Letter of Credit” means one or more irrevocable, transferable standby letters of credit issued by a U.S. commercial bank or a U.S. branch of a foreign bank provided that such Transmission Customer is not an affiliate of such bank, and provided that such bank has an issuer and/or corporate credit rating of at least A2 from Moody’s or A from Standard and Poor’s or Fitch Ratings. In the event of different ratings from the rating agencies, the lowest rating shall apply.
- (ii) Costs of a Letter of Credit shall be borne by the customer.
- (iii) If the credit rating of the bank issuing the Letter of Credit falls below the specified rating, the customer shall notify VTransco in writing within five business days of such event and shall have two business days following written notice to provide other appropriate Financial Assurance.

V. Credit Levels:

- A) Transmission Customers meeting the Creditworthiness Requirements in Section III will be extended unsecured credit equivalent to 3 months of transmission charges or, for interconnections, the credit equivalent of 3 months of the annual facilities charges and

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other ongoing charges.

- B) Transmission Customers not meeting the Creditworthiness Requirements above in Sections III and IV may not receive unsecured credit from VTransco.

VI. Ongoing Financial Review:

Each Transmission Customer is required to submit to VTransco annually or when issued, as applicable:

- A) Current rating agency report;
- B) Audited financial statements from a registered independent auditor; and
- C) 10-Ks and 8-Ks, promptly on their issuance.

VII. Contesting Creditworthiness Determination:

The Transmission Customer may contest VTransco's determination of creditworthiness by submitting a written request for re-evaluation within 20 calendar days. Such request should provide information supporting the basis for a request to re-evaluate a Transmission Customer's creditworthiness. VTransco will review and respond to the request within 20 calendar days.

VIII. Procedures for Changes in Credit Levels and Collateral Requirements:

VTransco shall issue reasonable advance notice of changes to the credit levels and/or collateral requirements. A Transmission Customer may request that VTransco provide an explanation of the reasons for the change by contacting VTransco at:

Chief Financial Officer
366 Pinnacle Ridge Rd.
Rutland, VT 05701

The specific procedures for changes in credit levels and collateral requirements are as

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follows:

A) General Notification process

- 1) VTransco shall provide written notification to ISO-NE and stakeholders of any filing described above, at least 30 days in advance of such filing.
- 2) Filing notifications shall include a detailed description of the filing, including a redlined document containing revised change(s) to the Creditworthiness Policy.
- 3) VTransco shall consult with interested stakeholders upon request.
- 4) Following Commission acceptance of such filing and upon the effective date, VTransco shall revise its Attachment L Creditworthiness Policy and an updated version of Schedule 21-VTransco shall be posted the ISO-NE website.

B) Transmission Customer Responsibility

When there is a change in requirements, it is the responsibility of the Customer to forward updated financial information to VTransco and indicate whether the change affects the customer's ability to meet the requirements of the Creditworthiness Policy. In such cases where the customer's status has changed, the Customer must take the steps necessary to comply with the revised requirements of the Creditworthiness Policy by the effective date of the change.

C) Notification for Active Customers

- 1) "Active Customers" are defined as any current Transmission Customer that has reserved Service within the last 3 months.
- 2) All Active Customers will be notified via either e-mail or U.S. mail that the above

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posting has been made and must follow the steps outlined in the procedure.

IX. Posting Requirements

A) Changes in Customer's Financial Condition

Each customer must inform VTransco, in writing, within five (5) business days of any material change in its financial condition or the financial condition of a parent providing a guarantee. A material change in financial condition may include, but is not limited to, the following:

- 1) Change in ownership by way of a merger, acquisition, or substantial sale of assets;
- 2) A downgrade of long- or short-term debt rating by a major rating agency;
- 3) Being placed on a credit watch with negative implications by a major rating agency;
- 4) A bankruptcy filing;
- 5) A declaration of or acknowledgement of insolvency;
- 6) A report of a significant quarterly loss or decline in earnings;
- 7) The resignation of key officer(s);
- 8) The issuance of a regulatory order and/or the filing of a lawsuit that could materially adversely impact current or future financial results

B) Change in Creditworthiness Status:

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A customer who has been extended unsecured credit under this policy must comply with the terms of Financial Assurance in item IV if one or more of the following conditions apply:

- 1) The customer no longer meets the applicable criteria for Creditworthiness in item III;
- 2) The customer exceeds the amount of unsecured credit extended by VTransco, in which case Financial Assurance equal to the amount of excess must be provided within 5 business days; or
- 3) The customer has missed two or more payments for any of the Services offered by VTransco in the last 12 months.

X. Suspension of Service:

VTransco may suspend service under this Schedule 21-VTransco to a Transmission Customer under the following circumstances;

- A) If a Transmission Customer that qualifies for service as a result of providing a Letter of Credit or alternative form of security does not pay its bill within 20 days of receipt of the invoice as required by this Schedule 21-VTransco, and it has not complied with the billing dispute provisions of this Schedule 21-VTransco, VTransco may suspend service 30 days after notice to the Transmission Customer and the Commission that service will be suspended unless the Transmission Customer makes payment.
- B) If a Transmission Customer that qualifies for service as a result of committing to prepay

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for service to or place the payment in an escrow account pursuant to Section IV A 1 or Section IV A 2 fails to prepay for service or place the amount in escrow as provided in such section, VTransco may suspend service immediately upon notice to the Transmission Customer and the Commission.

- C) If a Transmission Customer to whom the provisions of Sections III through XI applies fails to meet any applicable requirements, VTransco may suspend service immediately upon notice to the Transmission Customer and the Commission. The suspension of service shall continue only for as long as the circumstances that entitle VTransco to suspend service continue. A Transmission Customer is not obligated to pay for Transmission Service that is not provided as a result of a suspension of service.

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