M-S-R PUBLIC POWER AGENCY
MEMORANDUM

Date: August 30, 2018

To: M-S-R PPA Technical Committee

From: Martin R. Hopper, General Manager

Subject: Thursday, September 6, 2018, M-S-R PPA Technical Committee Meeting

Please find enclosed the agenda for the Thursday, September 6, 2018, M-S-R PPA Technical Committee Meeting to be held in Truckee, CA at 9:00 AM. Please post as required for Brown Act compliance.

Distribution:

Alan Hockenson – KBT
Dave Arthur – KBT
Tara Mikkelsen – NCI
Steve Gross – General Counsel
Toxie Burriss - MID
Greg Salyer - MID
David Olivares – MID
James McFall – MID
Martin Caballero – MID
Scott Van Vuren – MID
Jill DeJong – MID
Amy Santos – MID
Cindy Worley – MID
Steve Hance – SVP
Ann Hatcher – SVP
Kathleen Hughes – SVP
Yanmei Qiu – SVP
Steve Handy – Redding
Lowell Watros – Redding
Dan Beans – Redding
Nick Zettel – Redding
Carmen Bahr – Redding
M-S-R Public Power Agency

MEETING
OF THE TECHNICAL COMMITTEE

Thursday, September 6, 2018, 9:00 AM

Porter Simon Law Offices
40200 Truckee Airport Road, Suite 1
Truckee, CA 96161

AGENDA

Any member of the public who desires to address the Committee on any item considered by the Committee at this meeting before or during the Committee’s consideration of that item shall so advise the Chair and shall thereupon be given an opportunity to do so.

1. Call to Order
2. Roll Call
3. Approval of Minutes of July 11, 2018 Meeting (attached)
4. September 2018 General Manager’s Report (attached, Martin Hopper)
5. Projects and Activities (Alan Hockenson)
   a. San Juan Project Status Report (attached, Alan Hockenson)
   b. Pacific Northwest Projects Status Report (attached, Alan Hockenson)
6. Discussion and Possible Action Regarding 2019 Strategic Plan Review (attached, Martin Hopper)
8. Discussion and Possible Action Regarding September 2018 Outside Services Budget Versus Actual Report and Mid-Year Budget Review (attached, Martin Hopper)
9. Discussion and Possible Action Regarding September 2018 WREGIS REC Status Report (attached, Martin Hopper)
10. **Closed Session**
   b. Decision on Whether to Initiate Litigation: Government Code Section 54956.9(d)(4) – one case

11. Announcement from Closed Session

12. Member Reports

13. Public Comment

14. *Confirm date and time of next meeting*

15. Adjourn

ALTERNATE FORMATS OF THIS AGENDA WILL BE MADE AVAILABLE UPON REQUEST TO QUALIFIED INDIVIDUALS WITH DISABILITIES.
The M-S-R Public Power Agency (M-S-R PPA) Technical Committee held a regular meeting on July 11, 2018 at the offices of Navigant, Inc. in Folsom, California. A list of the attendees is provided as Attachment 1. Mr. Hopper chaired the meeting.

Roll Call/Call to Order
The following M-S-R Members were represented: Modesto Irrigation District – Martin Caballero, City of Santa Clara – absent, City of Redding – Steven Handy. Erica Jue of Santa Clara participated (non-voting) telephonically at an unnoticed location. The meeting was called to order at 10:13 a.m.

Approval of Minutes
Upon a motion by Mr. Handy, seconded by Mr. Caballero, the minutes of the meeting held on May 10, 2018 were approved unanimously.

General Manager’s Report
Mr. Hopper supplemented his written report with a verbal update on the current Bond Program. He indicated the entirety of the 2008L Bonds, 2008M Bonds, and 2008N Bonds were either called on July 1, 2018 or defeased through the issuance of the 2018R Bonds. Preliminary numbers show an estimated savings in the 2018 budget of $1.957 million to be divided among the remaining 6-months debt service. A corresponding budget reduction will be requested of the Commission at its meeting next week.

Mr. Hopper noted a slight inconsistency between the approval action by the Commission to authorize the latest extension of the General Manager contract and the actual language of the agreement. The agreement will be conformed to the Commission authorization in an administrative manner.
Mr. Hopper indicated it was the time of the year that the Strategic Plan and Policies and Procedures Manual are scheduled to be updated. Mr. Hopper proposed the following schedule with associated due dates:

General Manager’s Markups                July 27, 2018
Member Mark-Ups and Commentary           August 17, 2018
Technical Committee Workshop             September 6, 2018
Commission Review                        September 19, 2018

Projects and Activities
Mr. Hockenson indicated the next meetings will be on July 26, 2018 for the San Juan Decommissioning Committee at San Juan and on August 1, 2018 for the San Juan Reclamation Oversight Committee in Albuquerque, New Mexico. Mr. Hockenson relayed PNM’s message that the three decommissioning projects involving the agency had slipped by one month but should be completed by the fall.

Mr. Hockenson noted three outstanding issues before the Decommissioning Committee:

1. The mechanism for allocating insurance premium costs.
2. The development of a compendium of capital projects for 2018 and beyond.
3. Validation that the cost of decommissioning work performed in 2017 was allocated correctly.

Mr. Hockenson indicated that the overall wind energy production from the Big Horn site remains above expected levels. Mr. Hockenson noted the correlation between high energy delivery months and high levels of curtailments. With higher levels of wind generation, there is a greater the opportunity for curtailments.

Outside Services Budget versus Actual Reporting
Mr. Hopper indicated that expenditures on legal and consulting are roughly on track. Mr. Hopper also indicated that the mid-year budget review will be performed at the next meeting.

Mr. Hopper also noted that the reclamation work of the San Juan Coal Company (SJCC) ran substantially ahead of schedule for the past few months. The cause is due to reduced coal consumption associated with the long forced outage of San Juan Unit 1 starting in March 2018. SJCC temporarily reassigned surplus personnel to reclamation activates resulting in more reclamation work being completed. A roughly corresponding reduction will appear in future schedules for reclamation work.

**REC Status Report**
Mr. Hopper indicated the process is tracking on a timely basis.

**2018 Insurance Renewals**
Mr. Hopper provided an updated summary report containing the status of the Agency insurance renewals.

**Closed Session Conference with Legal Counsel**
Pursuant to Government Code Section 54956.9(d)(1), the M-S-R PPA Technical Committee retired to closed session at 11:02 a.m. to Conference with Legal Counsel - 3 Existing Litigation (NM-PRC Case No. 17-000174-UT, BP-16-BPA, and BP-18-BPA).

**Announcement from Closed Session**
Upon returning to open session at 12:12 p.m., Mr. Hopper reported that there were no reportable announcements.

**Member Reports**
Mr. Hopper solicited member reports from the Members and received none.

**Public Comment**
Mr. Hopper solicited comment from the Public and received none.

Next Meeting
The next regular meeting date will be at 9:00 a.m. on September 6, 2018 to be held at the offices of Porter Simon in Truckee, CA. An additional workshop related to Pacific Northwest activities will likely be scheduled on September 28, 2018 to be held in the Santa Clara vicinity. The meeting was adjourned at 12:14 p.m.

Respectfully submitted,

Martin R. Hopper
General Manager
## ATTENDANCE LIST

**M-S-R PUBLIC POWER AGENCY**  
**TECHNICAL COMMITTEE**  
**REGULAR MEETING**

July 11, 2018  
10:13 AM

<table>
<thead>
<tr>
<th>NAME</th>
<th>STATUS</th>
<th>ORGANIZATION</th>
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<tr>
<td>Martin Caballero</td>
<td>Member</td>
<td>Modesto</td>
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<td>Steve Gross</td>
<td>Guest</td>
<td>General Counsel (telephonic)</td>
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<td>Steven Handy</td>
<td>Member</td>
<td>Redding</td>
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<td>Alan Hockenson</td>
<td>Guest</td>
<td>Consultant</td>
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<td>Martin Hopper</td>
<td>Chair</td>
<td>General Manager</td>
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<td>Erica Jue</td>
<td>Guest</td>
<td>Santa Clara (telephonic)</td>
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<td>Pete Scanlon</td>
<td>Guest</td>
<td>Special Counsel (telephonic)</td>
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M-S-R Public Power Agency
Staff Report

Date: August 30, 2018
From: Martin R. Hopper, General Manager
To: M-S-R PPA Commission
Subject: September 2018 General Manager’s Report

Organization Charts and Member Appointments

We have again been apprised that the Members will be making a number of changes in their designated representatives to the Agency’s (and the Authority’s) Commission and Committees this fall. Please remember such changes do not become official until notice of the changes is provided in writing. Organization Charts will then be updated accordingly. Also please note that Fair Political Practices Commission (FPPC) Assuming Office and Leaving Office Statements (Form 700) are due within 30 days of the official changes in Commissioners, Alternate Commissioners, Committee Representatives and Alternate Representatives.

FPPC Reporting

The Agency has traditionally used manual (paper) processes to manage the submission of FPPC Assuming Office, Leaving Office and Annual Statements (Form 700). We have received a quotation for an automated (electronic) system to replace these paper processes at a very reasonable cost. This system will be implemented in time for use with 2018 Annual Statements.
SAN JUAN DECOMMISSIONING ISSUES

The dismantling of the Unit 2 cooling tower has slipped once again. The contractor is mobilizing the first week in September and should be completed by early October. The Public Service Company of New Mexico (PNM) has prioritized the areas of need regarding the ash cleaning for Unit 2 and Unit 3 work areas. When PNM is confident that the allocated budget for the cooling tower dismantlement will not be exceeded, ash cleanup will begin. Work will be performed in high priority areas and move down the priority list until funds are all expended. This effort may last into late October.

There are three additional items of interest that have been the subject of ongoing discussions:

1. The mechanism for allocating insurance premium costs is still being assessed.
2. The development of a compendium of capital projects for 2018 and beyond is being undertaken by PNM and will be made available to Participants on a periodic basis.
3. PNM estimates the decommissioning work performed in 2017 did not exceed $5,000. Cost of decommissioning work being under budget in 2018 is more due to high budget estimates than any other cause.

Regarding the Retirement Orders for Decommission Work to which the Agency has no cost responsibility, there are two items of note. Contractors are assessing the preservation alternatives for the stacks for Unit 2 and Unit 3. PNM is also prioritizing the dismantling of out buildings. It is PNM’s intent to spend unused Retirement Order budget on removing such buildings, to the extent possible, within calendar year 2018.

The next conference call for the Decommission Committee is scheduled for September 27, 2018. The following meeting will be held in Albuquerque, NM in October and will include a discussion of Decommissioning Work for 2019.
Wind Energy production has been good for both Big Horn Projects in 2018. Both Projects are on pace to exceed their annual expected production. Big Horn I has only accomplished that landmark in 2011 and 2014 while Big Horn II exceeded its expectations in 2014, 2016, and 2017. For the year, energy production remains 10%+ above expectations.

Curtailments totaled 8 MWh for June; however, for July there were 922 MWh on-peak hours and 594 MWh for off-peak hours. The cause for such high curtailments is still under investigation but it appears the transmission issue was on Western Area Power Administration facilities serving the City of Redding from Olinda Substation during the Carr Fire.

**Bonneville Power Administration (BPA)**

BPA has made a couple of announcements that are relevant to the contracts for Big Horn energy. First, BPA has proposed a reduction of the hourly charge for Variable Energy Resource Balancing Service (VERBS) by 5 cents (or roughly 5%) for the upcoming BP20 rate period beginning October 1, 2019. BPA also proposed to limit participation in its upcoming transmission rate settlement discussions to transmission contract holders. This position was different than past settlement discussions where all parties, such as M-S-R, with an economic interest were allowed to participate. Although BPA reversed this proposed limitation, this attempted action illustrates the continued need to closely monitor BPA policies and processes in the lead-up to the formal filing of the BP-20 rate case.
Each year the M-S-R PPA Commission considers an update to the M-S-R PPA Strategic Plan to provide guidance for the preparation of the M-S-R PPA Budget and for the operations of the Agency. The proposed update generally continues the status quo structure of M-S-R PPA operations with the continuation of the following major policy recommendations:

I. Actions necessary for the continued management of M-S-R PPA’s legacy liabilities pertaining to its former interests in the San Juan Generating Station; and

II. M-S-R PPA should continue to follow and to actively participate in BPA’s Wind Integration Charge (WIC) or Variable Energy Resource Balancing Service (VERBS) processes, BPA rate proceedings, and related FERC and judicial hearings; and

III. M-S-R PPA should continue to examine any reasonable options to reduce costs regarding the Big Horn Wind Energy Projects, but not recommend further action upon such proposals until all economic, legislative, and regulatory risks and benefits can be appropriately quantified for consideration by the Members; and
IV. M-S-R PPA should continue limited activities under its Regulatory and Compliance Program pertaining to FERC-filings regarding transmission rates and revenue requirements as may directly impact the Members, proceedings before the CEC, CARB and CPUC regarding greenhouse gas controls, cap-and-trade programs, CARB Mandatory Reporting Requirements and regarding SB 350, AB 398, and SB 100 implementation, all as directed by the Members. The Agency will continue to coordinate with its Members, BANC, TANC, NCPA and others to assign responsibilities, eliminate duplicative effort, and reduce costs wherever possible with the goal of minimizing or terminating activities under this program; and

V. M-S-R PPA should continue to participate in the APPA Western Markets Working Group along with interested Members as long as this task force remains relevant and effective. It should fund the 2019 $2,500 share of APPA’s voluntary assessment for this working group on behalf of the Agency and any interested Members rather than the M-S-R PPA Members making multiple individual contributions.

The discussions and analysis of issues within the M-S-R PPA (and M-S-R EA) Strategic Plans have also been reviewed by General Counsel for conformity with disclosure requirements and applicable legislative and regulatory obligations of the Agency and the Authority. The M-S-R PPA Technical Committee reviewed the draft plans in workshops held September 6, 2018 and will further review and update detailed status reports and workplans pertaining to BPA activities in a workshop to be held September 25, 2018.

The proposed 2019 M-S-R PPA Strategic Plan is attached in clear format and in redline format to show the changes from the adopted 2018 M-S-R PPA Strategic Plan.

I recommend the Commission adopt the proposed 2019 M-S-R PPA Strategic Plan.
M-S-R PUBLIC POWER AGENCY
2019 STRATEGIC PLAN

Effective January 1, 2019

TECHNICAL COMMITTEE REVIEW DRAFT
SEPTEMBER 6, 2018
In 1997 the M-S-R PPA Commission directed the annual development of a strategic plan to address the issues faced by the Agency in the ensuing five-year period. The plan is updated and reviewed by the M-S-R PPA Commission in September of each year prior to the development of the annual M-S-R PPA Budget. The issues of Organizational Structure and Philosophy; Managing and Maintaining Assets; Financial Matters; and Joint Action Opportunities presented below characterize M-S-R PPA’s strategic vision through 2023.

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I. INTRODUCTION

The M-S-R Public Power Agency (M-S-R PPA or Agency) was created on April 29, 1980, through a Joint Exercise of Powers Agreement among Modesto Irrigation District (Modesto or MID), the City of Santa Clara (Santa Clara or SVP), and the City of Redding (Redding or REU) – individually “Member” or collectively “Members,” for the purposes of acquiring, constructing, operating and maintaining any Project for the purpose of providing electrical energy or other Project benefits for public or private uses. M-S-R PPA’s activities span the Pacific Northwest Project, including the Big Horn Wind Energy Projects, and certain plant decommissioning, mine reclamation, or environmental remediation projects (San Juan Project Legacy Liabilities) related to its former interests in Unit No. 4 of the San Juan Generating Station (SJGS)\(^1\). Unless otherwise provided in separate agreements the Joint Powers Agreement specifies participation in M-S-R PPA Projects is Modesto 50%, Santa Clara 35%, and Redding 15%.

M-S-R PPA’s purpose is to maximize the value of its existing assets for the benefit of the Members and to respond to Member needs where joint action rather than individual action is deemed to be in the Member’s best interests. M-S-R PPA is also intended to provide more responsive services to its Members than may be possible from larger or state-wide agencies or associations.
II. ORGANIZATIONAL STRUCTURE AND PHILOSOPHY

Since its formation, M-S-R PPA has been a member-directed, member-supported organization. M-S-R PPA is governed by a three-member Commission appointed by and representing the governing bodies of Modesto, Santa Clara, and Redding. The General Manager and Commission are advised by the Technical Committee and the Financial Management Committee, each comprised of representatives of the technical and management staff of the Members. The Technical Committee’s purview includes engineering, technical, and economic aspects of the Agency’s Big Horn Wind Energy Projects, and potential future power, fuel supply and transmission projects, and San Juan Project Legacy Liabilities. The Financial Management Committee’s purview includes the Agency’s bonded debt and investments. Additionally, the Risk Management Committee was established by and administers the Agency’s Risk Management Policy and reports to both the General Manager and the Financial Management Committee. A copy of the Agency’s current organization chart is attached as Exhibit “A.”

The organization of the Agency and descriptions of its authorities and delegations is documented in a comprehensive Policies and Procedures Manual. Key enabling documents and controls are appended to the manual to provide a one-stop operations and governance resource. The manual was completed in December 2013 and is reviewed on a biennial basis in even-numbered years in conjunction with the annual review of this strategic plan.

Recommendations:

1. M-S-R PPA should continue to be member-directed and member-supported.

2. M-S-R PPA should continue to maintain a formal committee structure including the Technical, Financial Management, and Risk Management Committees to discuss financial and technical matters in noticed Public and Closed Sessions.

1 On December 31, 2017 (Exit Date) M-S-R PPA divested its operating interests and ownership of San Juan Unit No. 4 to PNM.
3. M-S-R PPA should continue to contract for the direct provision of general manager and general counsel services and, when needed, provide timely succession plans for the replacement of incumbent candidates.

4. M-S-R PPA should periodically review its reimbursement policy for Member support to ensure its fairness and suitability for each Member.

5. M-S-R PPA should periodically review its needs for consulting and contract support services for adequacy of coverage and reasonableness of costs.

6. M-S-R PPA should periodically appraise its management and administrative processes and policies.

7. With the completion of divestiture of the San Juan Generating Station in 2017, M-S-R PPA should continue to participate in post-divestiture successors to project committees as needed to manage its continuing liabilities. (See Sections “Legacy Liabilities – Mine Reclamation;” “Legacy Liabilities – Plant Decommissioning;” and “Legacy Liabilities – Potential Environmental Remediation” below.)
III. MANAGE AND MAINTAIN ASSETS

San Juan Project:

Project Description and History:

M-S-R PPA held a 28.8% ownership interest (or about 146 MW) in the 507 MW net SJGS Unit 4 (San Juan Unit 4) operated by the Public Service Company of New Mexico (PNM). M-S-R PPA purchased its interest in San Juan Unit 4 on December 31, 1983, began taking direct deliveries of energy and capacity on May 1, 1995, and divested its interests on December 31, 2017. These interests and related assets and liabilities are referred to as the San Juan Project. M-S-R PPA’s rights and obligations for this project are primarily governed by the San Juan Project Restructuring Agreement (Restructuring Agreement), the Amended and Restated Mine Reclamation and Trust Funds Agreement (Reclamation Agreement), the San Juan Plant Decommissioning and Trust Funds Agreement (Decommissioning Agreement) and M-S-R PPA’s Bond Indentures (while any M-S-R PPA bonds remain in effect). The Members’ rights and obligations pertaining to the San Juan Project are specified in the Tucson/San Juan Project Power Sales Agreement.

The San Juan Project was purchased to provide baseload power and act as a hedge against rising costs of wholesale power purchases. The San Juan Project also played a critical role in meeting Member power needs through the California Energy Crisis (2000 – 2001).

Asset Optimization:

As directed in prior Strategic Plans, the Agency and its Members reviewed the highest and best use of the San Juan Project and concluded that an orderly divestiture should be completed as soon as possible. The Agency and its Independent Consultant concluded “it would be in accordance with sound utility practice to pursue a divestiture of the San Juan Unit No. 4 in accordance with the terms of the Restructuring Agreements [as discussed below] and that such divestiture would not impair the ability of the Agency to comply with Bond Covenants nor would it hinder the Agency’s ability to make debt service payments as prescribed in its financing documents.” The divestiture of the San Juan Project also resulted

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in significant cost savings to the Members due to avoidance of high capital costs of retrofit technology at San Juan and the low cost of replacement energy.

On July 3, 2017 PNM filed its proposed Integrated Resource Plan (IRP) with the NM-PRC (Case 17-00174-UT) which identified the cessation of operations and shut-down of the SJGS effective June 30, 2022 as a preferred alternative. As discussed below, the Agency previously assumed for planning purposes that the SJGS would cease operations in 2022.

Restructuring Agreements:

On July 22, 2015, through Resolution 2015-02, the Agency approved the San Juan Restructuring Agreements whereby the Agency’s operating interests in the SJGS would be divested and provisions made for the retention and bounding of certain legacy liabilities pertaining to mine reclamation, plant decommissioning, and environmental remediation. The Restructuring Agreements with effective dates as noted include:

1. San Juan Project Restructuring Agreement or Restructuring Agreement (Effective January 31, 2016),
2. Amended and Restated Mine Reclamation and Trust Funds Agreement or Reclamation Agreement (Effective January 31, 2016),
3. San Juan Decommissioning and Trust Funds Agreement or Decommissioning Agreement (To be effective on the Exit Date),
4. Restructuring Amendment Amending and Restating the Amended and Restated San Juan Project Participation Agreement (Effective January 31, 2016), and
5. Exit Date Amendment Amending and Restating the Amended and Restated San Juan Project Participation Agreement (To be effective on the Exit Date).

Exit Implementation:
Subsequent to the completion of the Restructuring Agreements described above, the Agency adopted Resolution 2017-03 to implement other agreements and documents requiring action to be completed prior to the Exit Date. Other actions, such as the transfer of remaining Clean Air Act Allowances, completion of audits and settlements, would be implemented administratively by the General Manager.

On-Going Management:

Post-Exit Project Operations:

M-S-R PPA needs to maintain sufficient oversight of the San Juan Project to assure its obligations are met, liabilities minimized, and proper guidance provided to PNM as the Reclamation Agent and Decommissioning Agent. Decisions made or actions taken by PNM in these roles or as Operating Agent for the Remaining Participants may affect the allocation of operating costs between Initial Decommissioning, which is paid by M-S-R PPA, and Operations, Maintenance, and Capital, which is paid by the Remaining Participants. Similarly, decisions made or actions taken by PNM as Operating Agent may affect the allocations of San Juan Coal Company (as assignee of Westmoreland Coal Company) costs between the Coal Sales Agreement, the Coal Combustion Residuals Disposal Agreement and the Reclamation Services Agreement. Costs under the Coal Sales Agreement or Coal Combustion Residuals Disposal Agreement are not allocable to M-S-R PPA as an Exiting Participant. Costs under the Reclamation Services Agreement are allocable to M-S-R PPA through the Mine Reclamation and Trust Funds Agreement subsequent to the Exit Date. M-S-R PPA’s oversight roles will be maintained through its participation on the Reclamation Oversight Committee and the Decommissioning Committee. Although M-S-R PPA will not have a seat on the San Juan Audit Committee subsequent to the Exit Date, a Participant’s audit should occur in 2018 covering pre-Exit Date activities. This audit is normally led by TEP and M-S-R PPA shares in a percentage of the cost with the non-PNM Participants.

[3] The Exit Date was December 31, 2017 – as was assumed in the negotiation and execution of the Restructuring Agreements.

Tech C’tee Review Draft 9-6-18
Legacy Liabilities (Mine Reclamation):

Pursuant to the Mine Reclamation and Trust Funds Agreement, M-S-R PPA retains liability for 8.7% of the pre-Exit Date Mine Reclamation costs until such time as the mine site is reclaimed and any Reclamation Bonds held by the State of New Mexico are released. M-S-R PPA, like all other San Juan Project Participants, will continue to pay its share of Reclamation cost on an ongoing basis. Subsequent to the Exit Date, M-S-R PPA pays its share of both ongoing and final reclamation from funds on deposit in its Mine Reclamation Trust. Pursuant to the Mine Reclamation and Trust Funds Agreement, M-S-R PPA’s balance in its Trust needs to be sufficient as of the Exit Date to make all payments expected to be made thereafter and further is responsible to make whole any shortfalls in its Trust. M-S-R PPA’s funding requirement as of December 31, 2017 was $17.7 million. Further additions to the Trust will be required in the future if Trust earnings are below expectations or if indicated by biennial reclamation study updates. A reclamation study update performed in 2018 to make a final determination of pre-Exit Date disturbance requiring reclamation and to update cost estimates indicates an additional deposit of about $0.7 million may be required by M-S-R PPA due to higher estimates of cost escalation primarily attributed to diesel price increases. This study was based on an assumed June 30, 2022 termination of SJGS operations and completion of all Coal Combustion Residuals placement and cover by December 31, 2022. Final Reclamation Bond Release by the State of New Mexico on the San Juan Mine site is assumed to be no sooner than December 31, 2038, and with such action M-S-R PPA’s reclamation liabilities will have been satisfied. As discussed below (Section 4. Financial Matters – Legacy Liability Funding) sufficient funds are available in the Operating Fund and the MCCRA to make such deposits and additions without additional cash calls on the Members.

Oversight of the Reclamation Trust Funds Operating Agent is provided by the Reclamation Oversight Committee and the Reclamation Investment Committee. The purview of these committees includes reclamation costs estimates and scopes, actuarial reviews of earning and escalation assumptions, and monitoring of physical reclamation work.
Legacy Liabilities (Plant Decommissioning):

Pursuant to the Plant Decommissioning and Trust Funds Agreement, M-S-R PPA retains liability for a share starting at 8.7%, and declining annually, of the cost of SJGS decommissioning and demolition costs. M-S-R PPA’s share of this liability declines due to the proportionate increase in liabilities assumed by the Remaining Participants because of their continued use of the SJGS over time. The initial phase of such work necessary for known asset removal and remediation activities has been estimated to cost about $30 million. The SJGS Participants are required to have their share of such amount on deposit in their Trust Funds by December 31, 2022. The total cost to restore the SJGS site to a Greenfield or brownfield condition has been previously estimated to be between $160 and $260 million. At this time PNM has no identified schedule for, or identified requirement in current New Mexico law, requiring the site to be returned to brownfield conditions. The site is owned in fee by PNM and Tucson Electric Power Company (TEP) and is not subject to any leaseholder or land-owner requirements for restoration. PNM has consistently taken the position in recent years that no further work is required at the SJGS site other than the initial work identified above and to maintain on-going site security. However, certain New Mexico State Legislators have alleged in a protest of PNM’s IRP that it may be appropriate to require that the SJGS site be returned to greenfield conditions on the permanent cessation of generation operations. As part of the settlement among the SJGS Participants to achieve approval of the Restructuring Agreements, all parties retained or assumed proportionate liability for any such costs whenever occurring in the future, but only to fund the Trusts to a total of $30 million at the present time. Based on a 2022 shut-down, M-S-R PPA would have a 7.4% Decommissioning Share based on the assumptions used to create Exhibit A to the Decommissioning and Trust Funds Agreement. The exact Decommissioning Share applicable to M-S-R PPA will depend on the year of final SJGS shut-down and the official capacity ratings of the operating units through that date.

M-S-R PPA has deposited sufficient funds ($2.28 million) in its Decommissioning Trust proportionate to the $30 million sum noted above to perform all decommissioning activities.
PNM currently believes are required. If it is assumed a greenfield or brownfield restoration is required after shut-down of the last unit of the SJGS, M-S-R PPA will need to make additional deposits into its Trust. For example if the shutdown occurs in 2022 and a determination is made to effect a greenfield or brownfield restoration, M-S-R PPA will need to make an additional deposit into its Reclamation Trust within two years of adoption of updated Decommissioning Funding Target Amounts by the Decommissioning Investment Committee. The amount of such additional deposit may range from $10 million to $17 million based on the above estimates of greenfield or brownfield restoration. As discussed below (Section 4. Financial Matters – Legacy Liability Funding) sufficient funds may be available in the Operating Fund, the Member Cash Call Reserve Account (MCCRA), or other reserves to make such deposits without additional cash calls on the Members.

Oversight of the Decommissioning Agent is provided by the Decommissioning Committee and the Decommissioning Investment Committee. The purview of these Committees includes review of cost estimates and scopes, actuarial reviews of earning and escalation assumptions, and monitoring of work performed by or on behalf of the agent.

Legacy Liabilities (Potential Environmental Remediation):

Pursuant to the Restructuring Agreements, M-S-R PPA is potentially liable for pre-Exit Date environmental conditions requiring remediation. M-S-R PPA would not have responsibility for any remediation required as a result of post-Exit Date operations. To document such conditions, Counsel to the Participants commissioned a Baseline Environmental Study (BES) in 2015 to review all site conditions at the SJGS and in 2017 caused the completion of an update to the BES to further document pre-Exit Date environmental conditions. At this time it does not appear M-S-R PPA has an additional environmental remediation liabilities beyond those anticipated in the above estimates for Decommissioning Liabilities.
Balancing and Project Accounts

The reserve sharing balance under Service Schedule E – Reserve Sharing of the Interconnection Agreement with TEP settled through energy deliveries in 2017. Pursuant to the Termination Letter Agreement with PNM regarding Operating Procedure No. 1, the remaining balance in the deviation account was cash-settled in March 2018. A final accounting of Clean Air Act Allowances should be made after 2017 allowance retirements were made and balances held by PNM were transferred to the Members. Allowances held by the Agency were anticipated to be transferred to the Members prior to December 31, 2018.

Recommendations:

1. M-S-R PPA should continue to take all reasonable actions necessary to protect Members and bondholders from financial risk through final retirement of all related bonds and extinguishment of San Juan Legacy Liabilities.

2. M-S-R PPA should ensure the continued reliability and ongoing cost competitiveness of SJGS operations impacting either reclamation or decommissioning activities through active participation in all applicable San Juan committees as necessary for the management and minimization of San Juan Legacy Liabilities.
Southwest Transmission Project:

Project Description and History:

M-S-R PPA owned participation shares of the Mead-Phoenix and Mead-Adelanto 500-kV transmission projects (Mead Interests) from their initial operation in 1996 through 2016. In addition, it had other transmission rights with parties including TEP, and, until recently, Los Angeles Department of Water and Power (LADWP), and Southern California Edison (SCE) which formed a transmission path from the San Juan Switchyard to Northern California. Collectively, all these elements were referred to as the Southwest Transmission Project (SWTP). Supported by independent reviews as required by Bond Indentures, the Agency and its Members concluded that termination of the SCE Transmission Service Agreement and sales of the Mead Interests would provide the greatest value to M-S-R PPA and its Members. The Agency also concluded it would be cost-effective to substitute as-needed delivery of SJGS capacity and energy through the CAISO during the period between termination or sale of elements of the SWTP and the divestiture of the Agency’s interests in the SJGS.

Following a competitive request for proposals conducted in 2014, M-S-R PPA entered into negotiations with LADWP, who proposed to acquire the Mead Interests through the Southern California Public Power Authority (SCPPA) for the sum of $60 million. The Purchase and Sale Agreement with SCPPA was executed effective August 31, 2015 and the transaction closed May 25, 2016.

Recommendations

1. M-S-R PPA should monitor, and act upon if necessary, any legal or regulatory filings regarding its former interests in the SWTP to ensure that the assumption of post-divestiture liabilities by SCPPA and others is not compromised.
Pacific Northwest Project:

The Pacific Northwest Project initially consisted of contracts with the Bonneville Power Administration (BPA) for the delivery of power to the California-Oregon Border (COB) and from there to the M-S-R PPA Members through the California-Oregon Transmission Project (COTP.) The final agreement with BPA terminated on September 30, 2005. Subsequently, M-S-R PPA examined new renewable resources in the Pacific Northwest to satisfy three objectives: the development of substitute Pacific Northwest resources to replace deliveries from BPA contracts; the acquisition of eligible green power resources with associated environmental attributes to meet Renewable Portfolio Standard requirements of the Members; and the acquisition of power at prices reasonably competitive with the power market.

Big Horn Wind Energy Project:

Project Description and History:

On June 1, 2005, M-S-R PPA entered into a series of agreements (as amended in October 2005 and restated effective February 1, 2006) with PPM Energy, Inc. – now known as Avangrid Renewables, LLC (Avangrid) – to purchase wind power energy at a negotiated price, with a nominal installed capacity of approximately 199.5 MW and an expected annual capacity factor of about 35%, as firmed, shaped, and delivered to COB for a 20-year period. Power deliveries commenced on October 1, 2006 and will continue through September 30, 2026. Through an amendment of the original agreements effective December 1, 2008, M-S-R PPA has the right and obligation to continue to take the same output through September 30, 2031, or if the Big Horn Wind Energy Project is repowered, M-S-R PPA will have a right of first offer to negotiate a long-term power purchase for such repowered project. In consideration of these amendments, M-S-R PPA has assumed certain cost shares regarding the implementation of Wind Energy Integration Cost fees by BPA. On December 2, 2009, M-S-R PPA entered into a further series of agreements with Avangrid to purchase wind power energy from the 50 MW Big Horn II Wind Energy Project for a 25-year term from November 1, 2010 through October 31, 2035.
Asset Optimization:

Integration and Delivery:

Pursuant to the 2008 amendments to the Big Horn Agreements M-S-R PPA assumed a share of the then defined BPA Wind Integration Costs (WIC) in exchange for certain conditional extensions of the terms of the agreements. Although in recent years the cost sharing burden has fallen within a capped period where Avangrid assumes all costs above a stated threshold, the Agency’s consultants have opined that given Avangrid’s self-supply of integration and balancing services, the proxy fee for such services tied to the highest BPA rate for similar services is excessive. At the same time, Avangrid provided notice that it intended to and has become its own balancing authority effective July 31, 2018. Avangrid has also made various proposals to M-S-R PPA during the past year to rebalance these costs and to address certain other ambiguities in the agreements.

Power Cost and Ownership Structure:

M-S-R PPA will continue to evaluate any options to reduce Big Horn Wind Energy Project costs. Such options would have to be carefully structured to avoid endangering the status of Big Horn I environmental attributes in meeting California Renewable Portfolio Standard (RPS) requirements (specifically the grandfathered status of the project’s Renewable Energy Credits (RECs) as “Bucket 0 RECs”) and to avoid the assumption of significant new risk by the Agency. Additionally, any such restructuring would need to address currently out-of-market pricing of the project as compared to new renewable resources potentially available today, all without placing the structure or benefits of the Firming and Shaping Agreement with Avangrid at risk.
On-Going Management:

**M-S-R Coordinator:**
M-S-R PPA awarded a contract to Modesto in 1999 to provide Coordinator services. This agreement was for a three-year term with three optional one-year extensions and expired April 1, 2005. The M-S-R PPA Commission awarded similarly structured successor contracts to Modesto in 2004, 2011 and 2018. The M-S-R Coordinator provides pre-scheduling, scheduling, real-time dispatch and settlements services for the Big Horn Wind Energy Projects.

**Renewable Portfolio Standard Compliance:**

An Executive Order issued by Governor Arnold Schwarzenegger on September 15, 2009, required M-S-R PPA and its Members to achieve specific RPS requirements culminating in a 33% obligation in 2020. These requirements were subsequently codified in legislation through the passage of SB1X 2 in April 2011. The requirements of SB 350 further modified the RPS to a 50% obligation by 2030. Proposals such as SB 100 (De Leon) have been made in the California legislature suggesting a 100% zero-emission portfolio requirement by 2045. Current RPS law requires renewable energy projects to be “certified” as eligible renewable by the CEC. In addition, the CEC requires renewable projects to be tracked through the Western Renewable Energy Generation Information System (WREGIS). Both the Big Horn Wind Project and Big Horn II Wind Energy Project have been certified as eligible by the CEC. Avangrid/Big Horn Wind Project LLC/Big Horn II Wind Project LLC has also registered the Projects with WREGIS as generators and BPA has registered as the qualified reporting entity for the Projects. In 2009, M-S-R PPA adopted procedures for the verification, accounting, and distribution of WREGIS RECs for these and future projects.

The Big Horn Projects are significant elements in each Member’s renewable energy portfolio as tabulated below:
<table>
<thead>
<tr>
<th>Member</th>
<th>Big Horn I Participation</th>
<th>Big Horn II Participation</th>
<th>Wind Energy (GWh)</th>
<th>Fraction of 50% RPS²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Modesto</td>
<td>12.5%</td>
<td>65%</td>
<td>143</td>
<td>9%</td>
</tr>
<tr>
<td>Santa Clara</td>
<td>52.5%</td>
<td>35%</td>
<td>308</td>
<td>14%</td>
</tr>
<tr>
<td>Redding</td>
<td>35.0%</td>
<td>-</td>
<td>176</td>
<td>50%</td>
</tr>
</tbody>
</table>

2. Estimates are based on average annual Big Horn I & II production compared with 50% RPS requirement applied to projected 2030 load.

BPA Proceedings:

BPA Transmission and Ancillary Service rates directly and indirectly affect the costs paid by M-S-R PPA to for WIC reimbursement and for Firming and Shaping Services for the Big Horn Wind Energy Project and for pass-throughs by Avangrid of BPA Transmission and Ancillary Services charges for the Big Horn II Wind Energy Project. The annual costs paid for these services by M-S-R PPA are about $13 million. BPA’s Oversupply Management Protocol (OMP) addresses curtailments of variable energy resources such as the Big Horn wind energy projects during generation oversupply conditions. The OMP can impact energy deliveries and associated environmental attributes to M-S-R PPA. The costs and terms for BPA Transmission, Ancillary, and OMP services are addressed in biennial BPA Rate Cases.

BPA issued its Final Record of Decision (ROD) in rate case BP-16 on July 23, 2015, in which it continued to allocate oversupply costs to generators within the BPA Balancing Area Authority (BAA) in proportion to their transmission schedules compared to total schedules during the oversupply period. BPA issued its Final ROD in rate case BP-18 on July 26, 2017. Although certain reductions were made to Network, Southern Intertie, and VERBS rates, M-S-R PPA remains concerned that BPA transmission and ancillary services rates are excessive. BPA began preparing its BP-20 rate case during 2018 and will file its Initial Case Fall 2018. M-S-R PPA continues to participate in the workshops and filings related to these rate cases to ensure costs are not allocated in a discriminatory manner for transmission and...
ancillary services. A Priorities Matrix and Action Plan has been updated by Counsel and is used to manage the efforts of Staff, Counsel and Consultants in BPA Rate Cases.

**FERC Proceedings:**

At the Western Electricity Coordinating Council (WECC) there are a number of initiatives underway related to energy markets, renewable generation, and rules for the use of the supporting transmission system. Of particular interest are ongoing activities regarding the market-based energy imbalance market (EIM) by the California Independent System Operator (CAISO) and their potential impacts on the costs and deliverability of energy form the Big Horn Wind Energy Projects and other Member resources. In addition, the WECC is interested in a comprehensive study of natural gas infrastructure, including natural gas storage capacity and other critical facilities that support the electric power sector. The WECC is also interested in creating a comprehensive risk assessment of the Western Interconnection with such assessment focusing on key operational practices Western Interconnection and how to improve those practices.

Peak Reliability (Peak) was formed on February 12, 2014 when the functions of the WECC bifurcated and Peak became the Reliability Coordinator for the majority of the Western Interconnection. On July 20, 2018, Peak announced it will cease operations at the end of 2019. This announcement coincides with the announcement by the Southwest Power Pool to expand its reliability coordinator services in the Western Interconnection in late 2019. In addition, the California Independent System Operator (CAISO) announced on January 2, 2018 its intention to become a Reliability Coordinator, provide those services to Balancing Authorities in the Western Interconnection, and to withdraw from Peak effective September 2019.

The CAISO EIM was launched on November 1, 2014 with its first utility participant, PacifiCorp. NV Energy joined on December 1, 2015. Puget Sound Energy and Arizona Public Service joined on October 1, 2016. Portland General Electric joined on November 1,

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5 The cost reimbursement provisions of Modesto’s Star Point Wind Energy Project contract with Avangrid are essentially identical to those in the Big Horn II Wind Energy Project.
2017. PowerEx and Idaho Power joined on April 4, 2018. Other utilities in the planning phase of joining the CAISO EIM (and their scheduled dates of joining) include: Balancing Authority of Northern California/Sacramento Municipal Utility District (BANC/SMUD) (2019), Seattle City Light (2020), and Salt River Project (April 2020.) The Mexican grid operator El Centro Nacional de Control de Energía (CENACE) Baja Norte has indicated in October 2016 it is investigating joining the CAISO EIM but no firm date to join has been established.

APPA Western Markets Working Group:

APPA has facilitated meetings of an ad hoc Western Markets Working Group to discuss issues pertaining to the development of an EIM in the Pacific Northwest and the regionalization efforts of the CASIO particularly with respect to Pacific Northwest markets. Representatives of Publicly-owned Utilities from throughout the west have participated and attempted to reach consensus on common positions. Most importantly, this group has advocated for Public Power representation and oversight regarding transition issues and eventual regional transmission organization (RTO) governance. Delicate balancing between California-specific and larger regional issues, mainly surrounding cost-causation and cost allocations may moderate any positions taken or influence exerted by this group. The interests of M-S-R PPA and its Members are implicated in impacts on transmission cost, availability, and ancillary services requirements in the Pacific Northwest and continued deliverability and cost impacts on the Big Horn, Big Horn II and for Modesto Starpoint wind energy projects.

M-S-R PPA and its Members are continuing to follow these developing requirements and any impact that they might have on the Big Horn Energy Projects.

CARB/CEC Reporting and Certification:

The reporting of emissions under California Air Resources Board (CARB) and CEC regulations and the accounting of the RECs associated with the Big Horn (and Star Point) Wind Energy Projects has significant potential to affect the Agency’s benefits under these
contracts. Specifically, the treatment of the RECs as being so-called Bucket “0” must be preserved, to avoid reducing the benefits and economic value of these projects in satisfying Member RPS compliance requirements. Similarly, preservation of the RPS Adjustment under the CARB Mandatory Reporting Regulation (MRR) has substantial value to the Members.

On April 13, 2018, M-S-R PPA entered into letter agreements with Avangrid for both the Big Horn and Big Horn II Wind Energy Projects regarding “Process for Addressing RECs and California Carbon Allowances” and accounting for RPS Adjustments under CARB’s MRR.

Recommendations

1. M-S-R PPA should continue to administer the Big Horn I and II Wind Energy Project agreements to reduce costs and fees and maintain use of the Projects’ environmental attributes in satisfying the Members’ RPS or other requirements.

2. M-S-R PPA should continue to track and allocate renewable energy production and associated WREGIS RECs from the Big Horn I and II Wind Energy Projects for the benefit of the Members and take all necessary steps to ensure that such generation and credits remain eligible to meet all applicable California renewable energy production requirements.

3. M-S-R should continue to examine any reasonable options to reduce costs regarding the Big Horn Wind Energy Projects, but not recommend further action upon such proposals until all economic, legislative, and regulatory risks and benefits can be appropriately quantified for consideration by the Members.

4. M-S-R PPA should continue to follow and to actively participate (as directed by the M-S-R Commission) in BPA’s Wind Integration Charge or Variable Energy Resource Balancing Service (VERBS) processes, BPA rate proceedings, and related FERC and judicial hearings. Reports to Members and solicitation of direction regarding filings, positions, and meeting representation shall be timely and proactive. Periodic conference calls among Member staff will continue to
solicit Member input and discuss the implications and appropriate responses to these emerging threats. Priorities have been identified as follows, and will be periodically ranked in a Priorities Matrix and Action Plan:

a. M-S-R PPA will continue to work to minimize inappropriate cost shifts between BPA business units,

b. M-S-R PPA will advocate for cost causation principles with emphasis on VERBS customers paying only for services they actually receive,

c. M-S-R PPA will work with BPA on the development of operating protocols that support VERBS customers,

d. M-S-R PPA will support BPA initiatives to maintain the reliability of the transmission and hydro generation system.

5. M-S-R PPA should actively monitor Avangrid Renewables’ obligations and performance under the current agreements with respect to changing rules and regulations. Additionally, M-S-R PPA should monitor Avangrid’s financial structure and capitalization.

6. M-S-R PPA should track and actively comment upon proposed legislation and regulations as they may affect uses and benefits of M-S-R PPA wind contracts to meet California RPS requirements and carbon reporting regulations.

7. M-S-R PPA should continue to participate in the APPA Western Markets Working Group along with interested Members as long as this task force remains relevant and effective. It should fund the $2,500 expected share of APPA’s voluntary assessment for this working group on behalf of the Agency and any interested Members rather than the M-S-R PPA Members making multiple individual contributions.
IV. FINANCIAL MATTERS

Debt Management:

M-S-R PPA will have approximately $76 million of outstanding debt on the bonds sold to finance the San Juan Unit 4 facilities as of July 1, 2019. M-S-R PPA also holds about $65 million in operating funds and restricted and un-restricted reserves as reported in the June 30, 2018, Treasurer’s Report. M-S-R PPA maintains a minimum of 60-days operating cash, including certain reserved funds, and accrues other reserves as required by Bond Indentures, to fund contingent liabilities, and to manage Member cash call requirements. In 2016, M-S-R PPA defeased or called $46 million of outstanding debt in addition to regularly scheduled debt retirement and reduced average annual remaining debt service by more than $9.1 million. In 2018 M-S-R PPA called or refunded the Series 2008L, 2008M, and 2008N Bonds and associated swaps and achieved further annual debt service savings of about $4.3 million.

The Financial Management Committee monitors the financial markets and advises the General Manager regarding the issuance and management of the Agency’s debt. The activities of the Financial Management Committee are supported by an independent Financial Advisor, currently the firm of Montague, DeRose and Associates, LLC.

Funding of Legacy Liabilities:

Pursuant to Resolution 2016-04, the Agency will fund the balance of the costs of San Juan Project Legacy Liabilities from various reserve funds held by the Agency and associated with the San Juan Project. These reserves included $10.7 million of bond reserves held by the Trustee as of June 30, 2017. The Agency also holds a cash reserve as working capital in its Operating Fund as required by Resolution 2013-07 equivalent to 60-days of San Juan Project expense, which was about $14.5 million as of December 31, 2016 (based on a total...
Administrative, Fuel, Operations and Maintenance, and Debt Service Budget of $86.8 million and of which $5.0 million was subsequently transferred to the Mine Reclamation Trust Fund in 2017. As of the Exit Date this 60-day cash reserve requirement dropped to about $5.5 million (based on a $33 million annual Administrative and Debt Service Budget) and will drop to about $0.1 million upon the retirement of the San Juan bonds in 2022. Also note that the Reserve and Contingency Fund required by Indenture Section 4.03(f) is included in the 60-day requirement and is not additive to the balances enumerated here.

Pursuant to Resolution 2016-04 the Agency will use surplus 60-day cash reserve requirements to fund any additional Mine Reclamation Trust Fund balance requirements and place any remaining balances in the MCCRA along with the Debt Service Coverage Revolving Fund ending balance of $3.3 million in 2022. Based on these values a total of about $12.3 million would have accrued in the MCCRA by the end of 2022. This amount, combined with the $2.3 million held in the San Juan Decommissioning Trust could provide sufficient funds for a M-S-R PPA share at 7.4% of a $200 million SJGS site restoration project budget assuming termination of generation at the SJGS site in 2022 and the potential release of San Juan Legacy liabilities 15-years thereafter. If additional funds are required, a potential source would be certain Agency funds currently held in support of the Big Horn I Wind Energy Project. Although not specifically required by the Big Horn I Wind Energy Project agreements, the Agency maintains about $4.7 million in the Big Horn I Wind Energy Project payment lock-boxes as hedges against late Member payments and which by further Commission action could be directed for other uses. These funds held in the Big Horn I Wind Energy Project payment lock-boxes are at Agency rather than Big Horn Wind Energy Project shares. Additionally, any potential Environmental Remediation liabilities could be similarly funded.

A flow chart illustrating the accrual and transfer of these funds follows:

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*Pursuant to the advice of Tax Counsel, the Bond Reserves of $10.7 million was mandatorily applied to the refunding and defeasance of debt in 2018 and generated about $3.0 million per year of average debt service reduction.*
Recommendations

1. M-S-R PPA’s debt and investment structures should be periodically reviewed to maximize the benefits to M-S-R PPA and its members.

2. M-S-R PPA should evaluate and recommend debt-limit guidelines for use in the strategic evaluation and prioritization of future projects, including consideration of the use of prepay transactions if and when such projects are proposed.

3. As provided in Resolution 2016-04, M-S-R PPA should use funds from Operating Fund 60-day cash reserves formerly associated with San Juan Project costs to fund future San Juan Legacy Liability payments and to hold such Operating Fund 60-day cash reserves in the MCCRA until otherwise directed by the Commission in the future.

4. To consider use of Big Horn Wind Energy Project payment lock-box surplus funds to fund future San Juan Legacy Liability payments if currently held San Juan Project reserves are inadequate.

Deleted:

M-S-R PPA should continue its efforts to use new financial products and market opportunities to lower the effective annual debt service on the San Juan Project.

Deleted:

Any additional Reclamation Trust Deposits required to be made by December 31, 2017 any other surplus associated with San Juan Project costs to fund future San Juan Legacy Liability payments as may be.
V. JOINT ACTION OPPORTUNITIES

Background

Although each of the Members has developed its own power supply strategy through a combination of owned and purchased resources and has developed the infrastructure and a level of sophistication to perform their needed functions, there is the potential for the agency to be a vehicle if future joint opportunities arise. Activities examined by M-S-R PPA Members have included joint natural gas operations and wind-energy storage and shaping projects. Opportunities for greater utilization or improvement of existing resources may occur from time to time. M-S-R PPA has been instructed in the past by its Members to prefer individual pursuit of new projects rather than joint M-S-R PPA efforts. As San Juan Generating Station and the SWTP have been divested, M-S-R PPA should develop a plan for its ongoing and future overall structure. For example, should M-S-R PPA become focused solely on the Big Horn projects or are there other potential projects that would be best served by joint action? Are there synergies of needed generation between the Members that will continue to provide an impetus for further joint action? At similar junctures in the past neither the Big Horn Projects nor the Natural Gas Project implemented through M-S-R EA were envisioned prior to their development. However, if no future projects are contemplated and the need for the Agency is limited, it may be appropriate to consider assigning its functions to the Members and dissolving the Agency.

As discussed above, the Agency retains significant legacy liabilities pertaining to the San Juan Project, which will require active management for the foreseeable future. Therefore, dissolution of the Agency may not be permissible under the Tucson/San Juan Project Power Sales Agreement until all legacy liabilities pertaining to the San Juan Project, including but not limited to mine reclamation, plant decommissioning and environmental remediation, are satisfied and the term of related agreements concluded. Dissolution of the Agency may be permissible under the Pacific Northwest Power Sales Agreement once all obligations of the Agency under Pacific Northwest Purchase Contracts (such as the agreements with Avangrid regarding the Big Horn Wind Energy Projects) and Transmission Agreements that may be
applicable or required for Big Horn Wind Energy Project deliveries are satisfied or irrevocable provisions for such satisfaction made. The agreements with Avangrid allow their assignment to M-S-R Members provided such Member(s) is/are rated BBB+ or greater by Moodys or each individually post $5 million Letter of Credit or cash deposit with Avangrid. Under the scenarios evaluated above, the earliest satisfaction of San Juan Project legacy liabilities may not occur before December 31, 2037, the Big Horn Wind Energy Project Extension Term runs through September 30, 2031, and the Big Horn II Wind Energy Project term runs through October 31, 2035. Therefore it would appear unlikely that the Agency could be practicably dissolved prior to December 31, 2037.

Recommendations

1. Upon the specific request of the Members, M-S-R PPA should continue to collect information on resource opportunities as they present themselves to M-S-R PPA. M-S-R PPA will retain this information and make it available to the Members upon request:
   a. Specific power supply alternatives (renewable or non-renewable resources);
   b. Distribution or assignment of assets to Members,
   c. Other risk reduction/mitigation measures; or
   d. Other supply/reliability enhancements.

2. M-S-R PPA should continue discussions and planning for the long-term path and level of involvement in the agency. This should include consideration of potential allocation of agency and other costs on a basis other than the historical 50/35/15 percentages currently in place to align more accurately with member participation in M-S-R PPA projects following the divestiture of San Juan Project interests.

Renewable Portfolio Standard Risk/Opportunity

California has established RPS requirements for utilities pursuant to legislative and executive branch requirements. Proposed Federal and regional requirements are also expected to
require substantial use of additional renewable energy resources. Other Western states have adopted rigorous RPS requirements. Pursuant to current California law, the M-S-R PPA Members adopted their own Renewable Portfolio Standards and have adopted additional policies and procedures to meet the 50% by 2030 state-mandated RPS. The CEC has implemented its reporting process for publicly owned utilities to verify that they are meeting interim targets toward the state-mandated goals. The CEC and the CARB continue to proffer revisions to the RPS and GHG Reporting Regulations. **Further additions to RPS and carbon emission limitations continue to be explored by the legislature.** M-S-R PPA and its Member entities are actively involved in monitoring and commenting on related CEC processes.

**Regulatory Monitoring and Compliance Program**

On behalf of its Members and with respect to M-S-R PPA’s interests and former interests in the San Juan Project, the SWTP and the Pacific Northwest Project, the Agency has actively participated in regulatory forums before the FERC, the California Energy Commission, the California Air Resources Board, the California Public Utilities Commission and other agencies having jurisdiction over the Agency, its Members, or projects. With the termination of the Agency’s interests in the San Juan Project and the SWTP, the nexus to those activities is not as direct and the Agency needs to evaluate the continuing benefit to its Members of continuing to participate in proceedings before these bodies.

Existing interventions and protests before the FERC regarding transmission rates should be completed, but new interventions and protests should only be entertained when the Members determine there is a common interest that can be more efficiently and effectively prosecuted by joint action. To the extent possible, other entities such as TANC, BANC, or NCPA should take the lead role on activities such as PG&E, SCE, or SDG&E TRR filings. M-S-R PPA should continue to monitor FERC filings and act in a clearinghouse role for the Members only as long as the Members continue to deem it cost-effective. These future activities would be at a significantly lower level than those necessary to support active operation of transmission assets. Remaining activities would generally only apply to issues potentially impacting deliveries of renewable wind energy beyond the BPA system. Only when...
specifically directed by the Members would M-S-R PPA support interventions before the FERC related to general or state-wide transmission cost issues.

Proceedings before the CEC, CARB and CPUC regarding RPS compliance matters will continue to fall clearly under the Agency’s renewable program and costs and efforts thusly allocated. Proceedings before these same agencies regarding greenhouse gas controls, cap-and-trade programs, and CARB MRR were allocated to the San Juan Project even though they could also be considered to be closely allied to RPS compliance. Under the direction of the Members, the Agency has made extensive comments before these agencies regarding implementation of the Mandatory Reporting Requirements, the RPS Adjustment as it applies to the MRR, and SB 350 implementation. Continuing activities regarding SB 350 implementation (RPS), AB 398 implementation (Cap-and-Trade), or anticipated SB 100 implementation (RPS) are expected to continue in the future.

The M-S-R PPA Commission determined in Resolution 2017-04 Adopting 2018 M-S-R PPA Budget that costs pertaining to the Regulatory and Compliance program be allocated 2/5th to Modesto, 2/5th to Santa Clara, and 1/5th to Redding to reflect the number of parties to the remaining wind energy power purchase contracts on the basis that these costs and activities would likely terminate if M-S-R PPA entirely exits the energy delivery business. Similarly that costs of M-S-R Coordinator services are to be allocated 2/5th to Modesto, 2/5th to Santa Clara, and 1/5th to Redding to reflect the number of parties to the remaining wind energy power purchase contracts and equal burdening of the costs of coordination activities. Finally the Commission determined that administrative and general costs directly allocable to projects continue to be allocated on Participation Shares as defined in the Joint Powers Agreement and that costs currently generally allocated, or formerly allocated to the Southwest Transmission Project, be allocated directly to San Juan legacy activities or to the Pacific Northwest Project where possible.
Recommendations

1. Existing interventions and protests before the FERC regarding transmission rates should be completed, but new interventions and protests regarding state-wide or specific transmission rate issues should only be entertained when the Members determine there is a common interest that can be more efficiently and effectively prosecuted by joint action.

2. M-S-R PPA should continue to participate in proceedings before the CEC, CARB and CPUC regarding greenhouse gas controls, cap-and-trade programs, and CARB Mandatory Reporting Requirements and regarding SB 350, AB 398, and SB 100 implementation as directed by the Members.

3. The activities described in this section regarding FERC, CEC, CARB and CPUC matters shall be designated as the Regulatory Monitoring and Compliance Program and costs therein allocated to the Members on an equitable basis as determined and adopted by the Commission in Resolution 2017-04.

Non-Renewable Resource Projects

From time to time M-S-R PPA is presented with the opportunity to participate in additional non-renewable resource projects. Although such projects are not a priority for the Members, the Members may from time to time request that M-S-R PPA examine such projects.

Recommendations

1. M-S-R PPA should only respond to specific Members requests, if any.
VI. STRATEGIC RISKS AND EXPOSURES

Overview:

M-S-R PPA has developed a strong portfolio of generation assets. In the aggregate these assets have provided many years of cost effective energy supply to M-S-R PPA and its Members. However, there are inherent risks which could have potential adverse impacts to M-S-R PPA and its Members.

There are three broad categories of risk: Operational, Contractual, and Institutional. Individually and collectively they can affect the useful life and cost-effectiveness of M-S-R PPA’s primary assets: the San Juan Project, and the Big Horn Wind Energy Project and by implication, the M-S-R EA Natural Gas Project.

Recommendations

1. M-S-R PPA shall regularly review risks to M-S-R PPA and its Members with respect to their participation in M-S-R PPA and develop mitigation plans as appropriate.

Legislative and Regulatory Management Program

M-S-R PPA has actively participated in the past eight California legislative sessions in the monitoring and amendment of renewable resources legislation and other bills affecting the operation of M-S-R PPA and Member resources. Legislative advocates were retained and an informal structure for obtaining Member positions has evolved. M-S-R PPA has also participated as a non-voting member of the California Municipal Utilities Association (CMUA) Legislative and Regulatory Committee and CMUA Energy Policy Committee.

Recommendations

1. M-S-R PPA will take positions on only those bills and regulatory matters directly affecting M-S-R PPA resources or M-S-R PPA’s duties to its Members. M-S-R PPA may
also, by request of the Members, take positions on bills of common interest to the entire M-S-R PPA membership.

2. The M-S-R PPA General Manager will regularly consult with the Members to coordinate Agency and Member positions on bills and regulatory matters and to develop annual work plans for State and Federal legislative advocacy.

3. M-S-R PPA will retain legislative and regulatory advocates as needed to support its positions on proposed bills and regulations and will coordinate with Members and like-positioned entities and trade associations to promote M-S-R PPA’s interests.
VII. Exhibit “A”

M-S-R Public Power Agency Organization Chart

[Diagram of M-S-R Public Power Agency Organization Chart]

Revised: July 27, 2018
These agreements and documents included:

1. Assignment, Assumption, Termination and Release Agreement to be effective September 1, 2017.

2. New Exit Date Amendment Amending And Restating The Amended And Restated San Juan Project Participation Agreement to be dated September 1, 2017 and effective by the Exit Date pending FERC approval.

3. Termination Agreement - Capacity Option and Funding Agreement to be effective upon execution by all parties.

4. Amendment No. 4 to San Juan Project Early Purchase and Participation Agreement (EPPA) to be effective on the Exit Date.

5. Letter Agreement – Termination of Interconnection Agreement between PNM & M-S-R to be effective on the Exit Date.

6. Termination Agreement – Amended and Restated Interconnection Agreement – Tucson Electric Power Company (TEP) to be effective on the Exit Date.

7. Amended and Restated NERC Delegation Agreement and Acknowledgment among Participants in San Juan Project to be effective on the Exit Date.

8. Amended and Restated San Juan Project Designated Representative Agreement to be effective on the Exit Date.

9. Termination of San Juan Unit 4 Operating Procedure No. 1 between Public Service Company of New Mexico and M-S-R Public Power Agency to be effective on the Exit Date.
10. Instrument of Sale and Conveyance between M-S-R Public Power Agency and Public Service Company of New Mexico to be effective on the Exit Date.

11. Termination and Relinquishment by M-S-R Public Power Agency to be effective on the Exit Date.

12. An Easement and Right of Entry granted by PNM and TEP effective on the Exit Date.

M-S-R Coordinator:

M-S-R PPA awarded a contract to Modesto in 1999 to provide Coordinator services. This agreement was for a three-year term with three optional one-year extensions and expired April 1, 2005. The M-S-R PPA Commission awarded similarly structured successor contracts to Modesto in 2004 and 2011. In March 2015, the most recent agreement was amended to extend the term of the services through March 2018. The M-S-R Coordinator provides pre-scheduling, scheduling, real-time dispatch and settlements services for the San Juan Project and Big Horn Wind Energy Projects. Subsequent to the Exit-Date, the M-S-R Coordinator will provide final close-outs and settlements of energy deliveries and balancing accounts but will no longer be required to provide on-going services related to delivery of capacity and energy from the San Juan Project. Close-out activities will continue into January and February 2018, but successor contracts covering periods beyond that time will reflect the cessation of San Juan Project activities by the M-S-R Coordinator.
2. M-S-R PPA should implement all restructuring agreements affecting M-S-R PPA’s divestiture of the SJGS and complete the orderly termination of all third party agreements related to the ownership and/or operation of the SJGS.

3. M-S-R PPA should continue suspension of its program to liquidate a portion of its Clean Air Act Emission Allowances and transfer any allowances remaining in M-S-R PPA inventory to the Members subsequent to the Exit Date.
In 1997 the M-S-R PPA Commission directed the annual development of a strategic plan to address the issues faced by the Agency in the ensuing five-year period. The plan is updated and reviewed by the M-S-R PPA Commission in September of each year prior to the development of the annual M-S-R PPA Budget. The issues of Organizational Structure and Philosophy; Managing and Maintaining Assets; Financial Matters; and Joint Action Opportunities presented below characterize M-S-R PPA’s strategic vision through 2023.

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1. INTRODUCTION

The M-S-R Public Power Agency (M-S-R PPA or Agency) was created on April 29, 1980, through a Joint Exercise of Powers Agreement among Modesto Irrigation District (Modesto or MID), the City of Santa Clara (Santa Clara or SVP), and the City of Redding (Redding or REU) – individually “Member” or collectively “Members,” for the purposes of acquiring, constructing, operating and maintaining any Project for the purpose of providing electrical energy or other Project benefits for public or private uses. M-S-R PPA’s activities span the Pacific Northwest Project, including the Big Horn Wind Energy Projects, and certain plant decommissioning, mine reclamation, or environmental remediation projects (San Juan Project Legacy Liabilities) related to its former interests in Unit No. 4 of the San Juan Generating Station (SJGS). Unless otherwise provided in separate agreements the Joint Powers Agreement specifies participation in M-S-R PPA Projects is Modesto 50%, Santa Clara 35%, and Redding 15%.

M-S-R PPA’s purpose is to maximize the value of its existing assets for the benefit of the Members and to respond to Member needs where joint action rather than individual action is deemed to be in the Member’s best interests. M-S-R PPA is also intended to provide more responsive services to its Members than may be possible from larger or state-wide agencies or associations.
II. ORGANIZATIONAL STRUCTURE AND PHILOSOPHY

Since its formation, M-S-R PPA has been a member-directed, member-supported organization. M-S-R PPA is governed by a three-member Commission appointed by and representing the governing bodies of Modesto, Santa Clara, and Redding. The General Manager and Commission are advised by the Technical Committee and the Financial Management Committee, each comprised of representatives of the technical and management staff of the Members. The Technical Committee’s purview includes engineering, technical, and economic aspects of the Agency’s Big Horn Wind Energy Projects, and potential future power, fuel supply and transmission projects, and San Juan Project Legacy Liabilities. The Financial Management Committee’s purview includes the Agency’s bonded debt and investments. Additionally, the Risk Management Committee was established by and administers the Agency’s Risk Management Policy and reports to both the General Manager and the Financial Management Committee. A copy of the Agency’s current organization chart is attached as Exhibit “A.”

The organization of the Agency and descriptions of its authorities and delegations is documented in a comprehensive Policies and Procedures Manual. Key enabling documents and controls are appended to the manual to provide a one-stop operations and governance resource. The manual was completed in December 2013 and is reviewed on a biennial basis in even-numbered years in conjunction with the annual review of this strategic plan.

Recommendations:

1. M-S-R PPA should continue to be member-directed and member-supported.

2. M-S-R PPA should continue to maintain a formal committee structure including the Technical, Financial Management, and Risk Management Committees to discuss financial and technical matters in noticed Public and Closed Sessions.

1 On December 31, 2017 (Exit Date) M-S-R PPA divested its operating interests and ownership of San Juan Unit No. 4 to PNM.
3. M-S-R PPA should continue to contract for the direct provision of general manager and general counsel services and, when needed, provide timely succession plans for the replacement of incumbent candidates.

4. M-S-R PPA should periodically review its reimbursement policy for Member support to ensure its fairness and suitability for each Member.

5. M-S-R PPA should periodically review its needs for consulting and contract support services for adequacy of coverage and reasonableness of costs.

6. M-S-R PPA should periodically appraise its management and administrative processes and policies.

7. With the completion of divestiture of the San Juan Generating Station in 2017, M-S-R PPA should continue to participate in post-divestiture successors to project committees as needed to manage its continuing liabilities. (See Sections “Legacy Liabilities – Mine Reclamation;” “Legacy Liabilities – Plant Decommissioning;” and “Legacy Liabilities – Potential Environmental Remediation” below.)
III. MANAGE AND MAINTAIN ASSETS

San Juan Project:

Project Description and History:

M-S-R PPA held a 28.8% ownership interest (or about 146 MW) in the 507 MW_{net} SJGS Unit 4 (San Juan Unit 4) operated by the Public Service Company of New Mexico (PNM). M-S-R PPA purchased its interest in San Juan Unit 4 on December 31, 1983, began taking direct deliveries of energy and capacity on May 1, 1995, and divested its interests on December 31, 2017. These interests and related assets and liabilities are referred to as the San Juan Project. M-S-R PPA’s rights and obligations for this project are primarily governed by the San Juan Project Restructuring Agreement (Restructuring Agreement), the Amended and Restated Mine Reclamation and Trust Funds Agreement (Reclamation Agreement), the San Juan Plant Decommissioning and Trust Funds Agreement (Decommissioning Agreement) and M-S-R PPA’s Bond Indentures (while any M-S-R PPA bonds remain in effect). The Members’ rights and obligations pertaining to the San Juan Project are specified in the Tucson/San Juan Project Power Sales Agreement.

The San Juan Project was purchased to provide baseload power and act as a hedge against rising costs of wholesale power purchases. The San Juan Project also played a critical role in meeting Member power needs through the California Energy Crisis (2000 – 2001).

Asset Optimization:

As directed in prior Strategic Plans, the Agency and its Members reviewed the highest and best use of the San Juan Project and concluded that an orderly divestiture should be completed as soon as possible. The Agency and its Independent Consultant concluded “it would be in accordance with sound utility practice to pursue a divestiture of the San Juan Unit No. 4 in accordance with the terms of the Restructuring Agreements [as discussed below] and that such divestiture would not impair the ability of the Agency to comply with Bond Covenants nor would it hinder the Agency’s ability to make debt service payments as prescribed in its financing documents.” The divestiture of the San Juan Project also resulted
in significant cost savings to the Members due to avoidance of high capital costs of retrofit technology at San Juan and the low cost of replacement energy.

On July 3, 2017 PNM filed its proposed Integrated Resource Plan (IRP) with the NM-PRC (Case 17-00174-UT) which identified the cessation of operations and shut-down of the SJGS effective June 30, 2022 as a preferred alternative. As discussed below, the Agency previously assumed for planning purposes that the SJGS would cease operations in 2022.

**Restructuring Agreements:**

On July 22, 2015, through Resolution 2015-02, the Agency approved the San Juan Restructuring Agreements whereby the Agency’s operating interests in the SJGS would be divested and provisions made for the retention and bounding of certain legacy liabilities pertaining to mine reclamation, plant decommissioning, and environmental remediation. The Restructuring Agreements with effective dates as noted include:

1. San Juan Project Restructuring Agreement or Restructuring Agreement (Effective January 31, 2016),
2. Amended and Restated Mine Reclamation and Trust Funds Agreement or Reclamation Agreement (Effective January 31, 2016),
3. San Juan Decommissioning and Trust Funds Agreement or Decommissioning Agreement (To be effective on the Exit Date),
4. Restructuring Amendment Amending and Restating the Amended and Restated San Juan Project Participation Agreement (Effective January 31, 2016), and
5. Exit Date Amendment Amending and Restating the Amended and Restated San Juan Project Participation Agreement (To be effective on the Exit Date).

**Exit Implementation:**
Subsequent to the completion of the Restructuring Agreements described above, the Agency adopted Resolution 2017-03 to implement other agreements and documents requiring action to be completed prior to the Exit Date. Other actions, such as the transfer of remaining Clean Air Act Allowances, completion of audits and settlements, would be implemented administratively by the General Manager.

**On-Going Management:**

**Post-Exit Project Operations:**

M-S-R PPA needs to maintain sufficient oversight of the San Juan Project to assure its obligations are met, liabilities minimized, and proper guidance provided to PNM as the Reclamation Agent and Decommissioning Agent. Decisions made or actions taken by PNM in these roles or as Operating Agent for the Remaining Participants may affect the allocation of operating costs between Initial Decommissioning, which is paid by M-S-R PPA, and Operations, Maintenance, and Capital, which is paid by the Remaining Participants. Similarly, decisions made or actions taken by PNM as Operating Agent may affect the allocations of San Juan Coal Company (as assignee of Westmoreland Coal Company) costs between the Coal Sales Agreement, the Coal Combustion Residuals Disposal Agreement and the Reclamation Services Agreement. Costs under the Coal Sales Agreement or Coal Combustion Residuals Disposal Agreement are not allocable to M-S-R PPA as an Exiting Participant. Costs under the Reclamation Services Agreement are allocable to M-S-R PPA through the Mine Reclamation and Trust Funds Agreement subsequent to the Exit Date. M-S-R PPA’s oversight roles will be maintained through its participation on the Reclamation Oversight Committee and the Decommissioning Committee. Although M-S-R PPA will not have a seat on the San Juan Audit Committee subsequent to the Exit Date, a Participant’s audit should occur in 2018 covering pre-Exit Date activities. This audit is normally led by TEP and M-S-R PPA shares in a percentage of the cost with the non-PNM Participants.

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2 The Exit Date was December 31, 2017 – as was assumed in the negotiation and execution of the Restructuring Agreements.
Legacy Liabilities (Mine Reclamation):

Pursuant to the Mine Reclamation and Trust Funds Agreement, M-S-R PPA retains liability for 8.7% of the pre-Exit Date Mine Reclamation costs until such time as the mine site is reclaimed and any Reclamation Bonds held by the State of New Mexico are released. M-S-R PPA, like all other San Juan Project Participants, will continue to pay its share of Reclamation cost on an ongoing basis. Subsequent to the Exit Date, M-S-R PPA pays its share of both ongoing and final reclamation from funds on deposit in its Mine Reclamation Trust. Pursuant to the Mine Reclamation and Trust Funds Agreement, M-S-R PPA’s balance in its Trust needs to be sufficient as of the Exit Date to make all payments expected to be made thereafter and further is responsible to make whole any shortfalls in its Trust. M-S-R PPA’s funding requirement as of December 31, 2017 was $17.7 million. Further additions to the Trust will be required in the future if Trust earnings are below expectations or if indicated by biennial reclamation study updates. A reclamation study update performed in 2018 to make a final determination of pre-Exit Date disturbance requiring reclamation and to update cost estimates indicates an additional deposit of about $0.7 million may be required by M-S-R PPA due to higher estimates of cost escalation primarily attributed to diesel price increases. This study was based on an assumed June 30, 2022 termination of SJGS operations and completion of all Coal Combustion Residuals placement and cover by December 31, 2022. Final Reclamation Bond Release by the State of New Mexico on the San Juan Mine site is assumed to be no sooner than December 31, 2038, and with such action M-S-R PPA’s reclamation liabilities will have been satisfied. As discussed below (Section 4. Financial Matters – Legacy Liability Funding) sufficient funds are available in the Operating Fund and the MCCRA to make such deposits and additions without additional cash calls on the Members.

Oversight of the Reclamation Trust Funds Operating Agent is provided by the Reclamation Oversight Committee and the Reclamation Investment Committee. The purview of these committees includes reclamation costs estimates and scopes, actuarial reviews of earning and escalation assumptions, and monitoring of physical reclamation work.
Legacy Liabilities (Plant Decommissioning):

Pursuant to the Plant Decommissioning and Trust Funds Agreement, M-S-R PPA retains liability for a share starting at 8.7%, and declining annually, of the cost of SJGS decommissioning and demolition costs. M-S-R PPA’s share of this liability declines due to the proportionate increase in liabilities assumed by the Remaining Participants because of their continued use of the SJGS over time. The initial phase of such work necessary for known asset removal and remediation activities has been estimated to cost about $30 million. The SJGS Participants are required to have their share of such amount on deposit in their Trust Funds by December 31, 2022. The total cost to restore the SJGS site to a Greenfield or brownfield condition has been previously estimated to be between $160 and $260 million. At this time PNM has no identified schedule for, or identified requirement in current New Mexico law, requiring the site to be returned to brownfield conditions. The site is owned in fee by PNM and Tucson Electric Power Company (TEP) and is not subject to any leaseholder or land-owner requirements for restoration. PNM has consistently taken the position in recent years that no further work is required at the SJGS site other than the initial work identified above and to maintain on-going site security. However, certain New Mexico State Legislators have alleged in a protest of PNM’s IRP that it may be appropriate to require that the SJGS site be returned to greenfield conditions on the permanent cessation of generation operations. As part of the settlement among the SJGS Participants to achieve approval of the Restructuring Agreements, all parties retained or assumed proportionate liability for any such costs whenever occurring in the future, but only to fund the Trusts to a total of $30 million at the present time. Based on a 2022 shut-down, M-S-R PPA would have a 7.4% Decommissioning Share based on the assumptions used to create Exhibit A to the Decommissioning and Trust Funds Agreement. The exact Decommissioning Share applicable to M-S-R PPA will depend on the year of final SJGS shut-down and the official capacity ratings of the operating units through that date.

M-S-R PPA has deposited sufficient funds ($2.28 million) in its Decommissioning Trust proportionate to the $30 million sum noted above to perform all decommissioning activities
PNM currently believes are required. If it is assumed a greenfield or brownfield restoration is required after shut-down of the last unit of the SJGS, M-S-R PPA will need to make additional deposits into its Trust. For example if the shutdown occurs in 2022 and a determination is made to effect a greenfield or brownfield restoration, M-S-R PPA will need to make an additional deposit into its Reclamation Trust within two years of adoption of updated Decommissioning Funding Target Amounts by the Decommissioning Investment Committee. The amount of such additional deposit may range from $10 million to $17 million based on the above estimates of greenfield or brownfield restoration. As discussed below (Section 4. Financial Matters – Legacy Liability Funding) sufficient funds may be available in the Operating Fund, the Member Cash Call Reserve Account (MCCRA), or other reserves to make such deposits without additional cash calls on the Members.

Oversight of the Decommissioning Agent is provided by the Decommissioning Committee and the Decommissioning Investment Committee. The purview of these Committees includes review of cost estimates and scopes, actuarial reviews of earning and escalation assumptions, and monitoring of work performed by or on behalf of the agent.

**Legacy Liabilities (Potential Environmental Remediation):**

Pursuant to the Restructuring Agreements, M-S-R PPA is potentially liable for pre-Exit Date environmental conditions requiring remediation. M-S-R PPA would not have responsibility for any remediation required as a result of post-Exit Date operations. To document such conditions, Counsel to the Participants commissioned a Baseline Environmental Study (BES) in 2015 to review all site conditions at the SJGS and in 2017 caused the completion of an update to the BES to further document pre-Exit Date environmental conditions. At this time it does not appear M-S-R PPA has an additional environmental remediation liabilities beyond those anticipated in the above estimates for Decommissioning Liabilities.
Balancing and Project Accounts

The reserve sharing balance under Service Schedule E – Reserve Sharing of the Interconnection Agreement with TEP settled through energy deliveries in 2017. Pursuant to the Termination Letter Agreement with PNM regarding Operating Procedure No. 1, the remaining balance in the deviation account was cash-settled in March 2018. A final accounting of Clean Air Act Allowances should be made after 2017 allowance retirements was made and balances held by PNM were transferred to the Members. Allowances held by the Agency were anticipated to be transferred to the Members prior to December 31, 2018.

Recommendations:

1. M-S-R PPA should continue to take all reasonable actions necessary to protect Members and bondholders from financial risk through final retirement of all related bonds and extinguishment of San Juan Legacy Liabilities.

2. M-S-R PPA should ensure the continued reliability and ongoing cost competitiveness of SJGS operations impacting either reclamation or decommissioning activities through active participation in all applicable San Juan committees as necessary for the management and minimization of San Juan Legacy Liabilities.
Southwest Transmission Project:

Project Description and History:

M-S-R PPA owned participation shares of the Mead-Phoenix and Mead-Adelanto 500-kV transmission projects (Mead Interests) from their initial operation in 1996 through 2016. In addition, it had other transmission rights with parties including TEP, and, until recently, Los Angeles Department of Water and Power (LADWP), and Southern California Edison (SCE) which formed a transmission path from the San Juan Switchyard to Northern California. Collectively, all these elements were referred to as the Southwest Transmission Project (SWTP). Supported by independent reviews as required by Bond Indentures, the Agency and its Members concluded that termination of the SCE Transmission Service Agreement and sales of the Mead Interests would provide the greatest value to M-S-R PPA and its Members. The Agency also concluded it would be cost-effective to substitute as-needed delivery of SJGS capacity and energy through the CAISO during the period between termination or sale of elements of the SWTP and the divestiture of the Agency’s interests in the SJGS.

Following a competitive request for proposals conducted in 2014, M-S-R PPA entered into negotiations with LADWP, who proposed to acquire the Mead Interests through the Southern California Public Power Authority (SCPPA) for the sum of $60 million. The Purchase and Sale Agreement with SCPPA was executed effective August 31, 2015 and the transaction closed May 25, 2016.

Recommendations

1. M-S-R PPA should monitor, and act upon if necessary, any legal or regulatory filings regarding its former interests in the SWTP to ensure that the assumption of post-divestiture liabilities by SCPPA and others is not compromised.
**Pacific Northwest Project:**

The Pacific Northwest Project initially consisted of contracts with the Bonneville Power Administration (BPA) for the delivery of power to the California-Oregon Border (COB) and from there to the M-S-R PPA Members through the California-Oregon Transmission Project (COTP). The final agreement with BPA terminated on September 30, 2005. Subsequently, M-S-R PPA examined new renewable resources in the Pacific Northwest to satisfy three objectives: the development of substitute Pacific Northwest resources to replace deliveries from BPA contracts; the acquisition of eligible green power resources with associated environmental attributes to meet Renewable Portfolio Standard requirements of the Members; and the acquisition of power at prices reasonably competitive with the power market.

**Big Horn Wind Energy Project:**

**Project Description and History:**

On June 1, 2005, M-S-R PPA entered into a series of agreements (as amended in October 2005 and restated effective February 1, 2006) with PPM Energy, Inc. – now known as Avangrid Renewables, LLC (Avangrid) – to purchase wind power energy at a negotiated price, with a nominal installed capacity of approximately 199.5 MW and an expected annual capacity factor of about 35%, as firmed, shaped, and delivered to COB for a 20-year period. Power deliveries commenced on October 1, 2006 and will continue through September 30, 2026. Through an amendment of the original agreements effective December 1, 2008, M-S-R PPA has the right and obligation to continue to take the same output through September 30, 2031, or if the Big Horn Wind Energy Project is repowered, M-S-R PPA will have a right of first offer to negotiate a long-term power purchase for such repowered project. In consideration of these amendments, M-S-R PPA has assumed certain cost shares regarding the implementation of Wind Energy Integration Cost fees by BPA. On December 2, 2009, M-S-R PPA entered into a further series of agreements with Avangrid to purchase wind power energy from the 50 MW Big Horn II Wind Energy Project for a 25-year term from November 1, 2010 through October 31, 2035.
Asset Optimization:

Integration and Delivery:

Pursuant to the 2008 amendments to the Big Horn Agreements M-S-R PPA assumed a share of the then defined BPA Wind Integration Costs (WIC) in exchange for certain conditional extensions of the terms of the agreements. Although in recent years the cost sharing burden has fallen within a capped period where Avangrid assumes all costs above a stated threshold, the Agency’s consultants have opined that given Avangrid’s self-supply of integration and balancing services, the proxy fee for such services tied to the highest BPA rate for similar services is excessive. At the same time, Avangrid provided notice that it intended to and has become its own balancing authority effective July 31, 2018. Avangrid has also made various proposals to M-S-R PPA during the past year to rebalance these costs and to address certain other ambiguities in the agreements.

Power Cost and Ownership Structure:

M-S-R PPA will continue to evaluate any options to reduce Big Horn Wind Energy Project costs. Such options would have to be carefully structured to avoid endangering the status of Big Horn I environmental attributes in meeting California Renewable Portfolio Standard (RPS) requirements (specifically the grandfathered status of the project’s Renewable Energy Credits (RECs) as “Bucket 0 RECs”) and to avoid the assumption of significant new risk by the Agency. Additionally, any such restructuring would need to address currently out-of-market pricing of the project as compared to new renewable resources potentially available today, all without placing the structure or benefits of the Firming and Shaping Agreement with Avangrid at risk.
On-Going Management:

M-S-R Coordinator:

M-S-R PPA awarded a contract to Modesto in 1999 to provide Coordinator services. This agreement was for a three-year term with three optional one-year extensions and expired April 1, 2005. The M-S-R PPA Commission awarded similarly structured successor contracts to Modesto in 2004, 2011 and 2018. The M-S-R Coordinator provides pre-scheduling, scheduling, real-time dispatch and settlements services for the Big Horn Wind Energy Projects.

Renewable Portfolio Standard Compliance:

An Executive Order issued by Governor Arnold Schwarzenegger on September 15, 2009, required M-S-R PPA and its Members to achieve specific RPS requirements culminating in a 33% obligation in 2020. These requirements were subsequently codified in legislation through the passage of SB1X 2 in April 2011. The requirements of SB 350 further modified the RPS to a 50% obligation by 2030. Proposals such as SB 100 (De Leon) have been made in the California legislature suggesting a 100% zero-emission portfolio requirement by 2045. Current RPS law requires renewable energy projects to be “certified” as eligible renewable by the CEC. In addition, the CEC requires renewable projects to be tracked through the Western Renewable Energy Generation Information System (WREGIS). Both the Big Horn Wind Project and Big Horn II Wind Energy Project have been certified as eligible by the CEC. Avangrid/Big Horn Wind Project LLC/Big Horn II Wind Project LLC has also registered the Projects with WREGIS as generators and BPA has registered as the qualified reporting entity for the Projects. In 2009, M-S-R PPA adopted procedures for the verification, accounting, and distribution of WREGIS RECs for these and future projects.

The Big Horn Projects are significant elements in each Member’s renewable energy portfolio as tabulated below:
## BPA Proceedings:

BPA Transmission and Ancillary Service rates directly and indirectly affect the costs paid by M-S-R PPA to for WIC reimbursement and for Firming and Shaping Services for the Big Horn Wind Energy Project and for pass-throughs by Avangrid of BPA Transmission and Ancillary Services charges for the Big Horn II Wind Energy Project\(^3\). The annual costs paid for these services by M-S-R PPA are about $13 million. BPA’s Oversupply Management Protocol (OMP) addresses curtailments of variable energy resources such as the Big Horn wind energy projects during generation oversupply conditions. The OMP can impact energy deliveries and associated environmental attributes to M-S-R PPA. The costs and terms for BPA Transmission, Ancillary, and OMP services are addressed in biennial BPA Rate Cases.

BPA issued its Final Record of Decision (ROD) in rate case BP-16 on July 23, 2015, in which it continued to allocate oversupply costs to generators within the BPA Balancing Area Authority (BAA) in proportion to their transmission schedules compared to total schedules during the oversupply period. BPA issued its Final ROD in rate case BP-18 on July 26, 2017. Although certain reductions were made to Network, Southern Intertie, and VERBS rates, M-S-R PPA remains concerned that BPA transmission and ancillary services rates are excessive. BPA began preparing its BP-20 rate case during 2018 and will file its Initial Case Fall 2018. M-S-R PPA continues to participate in the workshops and filings related to these rate cases to ensure costs are not allocated in a discriminatory manner for transmission and

<table>
<thead>
<tr>
<th>Member</th>
<th>Big Horn I Participation</th>
<th>Big Horn II Participation</th>
<th>Wind Energy (GWh)</th>
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<td>35%</td>
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<td>176</td>
<td>50%</td>
</tr>
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</table>

\(^2\) Estimates are based on average annual Big Horn I & II production compared with 50% RPS requirement applied to projected 2030 load.
ancillary services. A Priorities Matrix and Action Plan has been updated by Counsel and is used to manage the efforts of Staff, Counsel and Consultants in BPA Rate Cases.

FERC Proceedings:

At the Western Electricity Coordinating Council (WECC) there are a number of initiatives underway related to energy markets, renewable generation, and rules for the use of the supporting transmission system. Of particular interest are ongoing activities regarding the market-based energy imbalance market (EIM) by the California Independent System Operator (CAISO) and their potential impacts on the costs and deliverability of energy from the Big Horn Wind Energy Projects and other Member resources. In addition, the WECC is interested in a comprehensive study of natural gas infrastructure, including natural gas storage capacity and other critical facilities that support the electric power sector. The WECC is also interested in creating a comprehensive risk assessment of the Western Interconnection with such assessment focusing on key operational practices Western Interconnection and how to improve those practices.

Peak Reliability (Peak) was formed on February 12, 2014 when the functions of the WECC bifurcated and Peak became the Reliability Coordinator for the majority of the Western Interconnection. On July 20, 2018, Peak announced it will cease operations at the end of 2019. This announcement coincides with the announcement by the Southwest Power Pool to expand its reliability coordinator services in the Western Interconnection in late 2019. In addition, the California Independent System Operator (CAISO) announced on January 2, 2018 its intention to become a Reliability Coordinator, provide those services to Balancing Authorities in the Western Interconnection, and to withdraw from Peak effective September 2019.

The CAISO EIM was launched on November 1, 2014 with its first utility participant, PacifiCorp. NV Energy joined on December 1, 2015. Puget Sound Energy and Arizona Public Service joined on October 1, 2016. Portland General Electric joined on November 1, 2016.

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3 The cost reimbursement provisions of Modesto’s Star Point Wind Energy Project contract with Avangrid are essentially identical to those in the Big Horn II Wind Energy Project.
2017. PowerEx and Idaho Power joined on April 4, 2018. Other utilities in the planning phase of joining the CAISO EIM (and their scheduled dates of joining) include: Balancing Authority of Northern California/Sacramento Municipal Utility District (BANC/SMUD) (2019), Seattle City Light (2020), and Salt River Project (April 2020.) The Mexican grid operator El Centro Nacional de Control de Energía (CENACE) Baja Norte has indicated in October 2016 it is investigating joining the CAISO EIM but no firm date to join has been established.

**APPA Western Markets Working Group:**

APPA has facilitated meetings of an ad hoc Western Markets Working Group to discuss issues pertaining to the development of an EIM in the Pacific Northwest and the regionalization efforts of the CASIO particularly with respect to Pacific Northwest markets. Representatives of Publicly-owned Utilities from throughout the west have participated and attempted to reach consensus on common positions. Most importantly, this group has advocated for Public Power representation and oversight regarding transition issues and eventual regional transmission organization (RTO) governance. Delicate balancing between California-specific and larger regional issues, mainly surrounding cost-causation and cost allocations may moderate any positions taken or influence exerted by this group. The interests of M-S-R PPA and its Members are implicated in impacts on transmission cost, availability, and ancillary services requirements in the Pacific Northwest and continued deliverability and cost impacts on the Big Horn, Big Horn II and for Modesto Starpoint wind energy projects.

M-S-R PPA and its Members are continuing to follow these developing requirements and any impact that they might have on the Big Horn Energy Projects.

**CARB/CEC Reporting and Certification:**

The reporting of emissions under California Air Resources Board (CARB) and CEC regulations and the accounting of the RECs associated with the Big Horn (and Star Point) Wind Energy Projects has significant potential to affect the Agency’s benefits under these
contracts. Specifically, the treatment of the RECs as being so-called Bucket “0” must be preserved, to avoid reducing the benefits and economic value of these projects in satisfying Member RPS compliance requirements. Similarly, preservation of the RPS Adjustment under the CARB Mandatory Reporting Regulation (MRR) has substantial value to the Members. On April 13, 2018, M-S-R PPA entered into letter agreements with Avangrid for both the Big Horn and Big Horn II Wind Energy Projects regarding “Process for Addressing RECs and California Carbon Allowances” and accounting for RPS Adjustments under CARB’s MRR.

**Recommendations**

1. M-S-R PPA should continue to administer the Big Horn I and II Wind Energy Project agreements to reduce costs and fees and maintain use of the Projects’ environmental attributes in satisfying the Members’ RPS or other requirements.

2. M-S-R PPA should continue to track and allocate renewable energy production and associated WREGIS RECs from the Big Horn I and II Wind Energy Projects for the benefit of the Members and take all necessary steps to ensure that such generation and credits remain eligible to meet all applicable California renewable energy production requirements.

3. M-S-R should continue to examine any reasonable options to reduce costs regarding the Big Horn Wind Energy Projects, but not recommend further action upon such proposals until all economic, legislative, and regulatory risks and benefits can be appropriately quantified for consideration by the Members.

4. M-S-R PPA should continue to follow and to actively participate (as directed by the M-S-R Commission) in BPA’s Wind Integration Charge or Variable Energy Resource Balancing Service (VERBS) processes, BPA rate proceedings, and related FERC and judicial hearings. Reports to Members and solicitations of direction regarding filings, positions, and meeting representation shall be timely and proactive. Periodic conference calls among Member staff will continue to
solicit Member input and discuss the implications and appropriate responses to these emerging threats. Priorities have been identified as follows, and will be periodically ranked in a Priorities Matrix and Action Plan:

a. M-S-R PPA will continue to work to minimize inappropriate cost shifts between BPA business units,

b. M-S-R PPA will advocate for cost causation principles with emphasis on VERBS customers paying only for services they actually receive,

c. M-S-R PPA will work with BPA on the development of operating protocols that support VERBS customers,

d. M-S-R PPA will support BPA initiatives to maintain the reliability of the transmission and hydro generation system.

5. M-S-R PPA should actively monitor Avangrid Renewables’ obligations and performance under the current agreements with respect to changing rules and regulations. Additionally, M-S-R PPA should monitor Avangrid’s financial structure and capitalization.

6. M-S-R PPA should track and actively comment upon proposed legislation and regulations as they may affect uses and benefits of M-S-R PPA wind contracts to meet California RPS requirements and carbon reporting regulations.

7. M-S-R PPA should continue to participate in the APPA Western Markets Working Group along with interested Members as long as this task force remains relevant and effective. It should fund the 2019 $2,500 expected share of APPA’s voluntary assessment for this working group on behalf of the Agency and any interested Members rather than the M-S-R PPA Members making multiple individual contributions.
IV. FINANCIAL MATTERS

Debt Management:

M-S-R PPA will have approximately $76 million of outstanding debt on the bonds sold to finance the San Juan Unit 4 facilities as of July 1, 2019. M-S-R PPA also holds about $65 million in operating funds and restricted and un-restricted reserves as reported in the June 30, 2018, Treasurer’s Report. M-S-R PPA maintains a minimum of 60-days operating cash, including certain reserved funds, and accrues other reserves as required by Bond Indentures, to fund contingent liabilities, and to manage Member cash call requirements. In 2016, M-S-R PPA defeased or called $46 million of outstanding debt in addition to regularly scheduled debt retirement and reduced average annual remaining debt service by more than $9.1 million. In 2018 M-S-R PPA called or refunded the Series 2008L, 2008M, and 2008N Bonds and associated swaps and achieved further annual debt service savings of about $4.3 million.

The Financial Management Committee monitors the financial markets and advises the General Manager regarding the issuance and management of the Agency’s debt. The activities of the Financial Management Committee are supported by an independent Financial Advisor, currently the firm of Montague, DeRose and Associates, LLC.

Funding of Legacy Liabilities:

Pursuant to Resolution 2016-04, the Agency will fund the balance of the costs of San Juan Project Legacy Liabilities from various reserve funds held by the Agency and associated with the San Juan Project. Those reserves included $10.7 million of bond reserves held by the Trustee as of June 30, 2017. The Agency also holds a cash reserve as working capital in its Operating Fund as required by Resolution 2013-07 equivalent to 60-days of San Juan Project expense, which was about $14.5 million as of December 31, 2016 (based on a total
Administrative, Fuel, Operations and Maintenance, and Debt Service Budget of $86.8 million) and of which $5.0 million was subsequently transferred to the Mine Reclamation Trust Fund in 2017. As of the Exit Date this 60-day cash reserve requirement dropped to about $5.5 million (based on a $33 million annual Administrative and Debt Service Budget) and will drop to about $0.1 million upon the retirement of the San Juan bonds in 2022. Also note that the Reserve and Contingency Fund required by Indenture Section 4.03(f) is included in the 60-day requirement and is not additive to the balances enumerated here.

Pursuant to Resolution 2016-04 the Agency will use surplus 60-day cash reserve requirements to fund any additional Mine Reclamation Trust Fund balance requirements and place any remaining balances in the MCCRA along with the Debt Service Coverage Revolving Fund ending balance of $3.3 million in 2022. Based on these values a total of about $12.3 million would have accrued in the MCCRA by the end of 2022. This amount, combined with the $2.3 million held in the San Juan Decommissioning Trust could provide sufficient funds for a M-S-R PPA share at 7.4% of a $200 million SJGS site restoration project budget assuming termination of generation at the SJGS site in 2022 and the potential release of San Juan Legacy liabilities 15-years thereafter. If additional funds are required, a potential source would be certain Agency funds currently held in support of the Big Horn I Wind Energy Project. Although not specifically required by the Big Horn I Wind Energy Project agreements, the Agency maintains about $4.7 million in the Big Horn I Wind Energy Project payment lock-boxes as hedges against late Member payments and which by further Commission action could be directed for other uses. These funds held in the Big Horn I Wind Energy Project payment lock-boxes are at Agency rather than Big Horn Wind Energy Project shares. Additionally, any potential Environmental Remediation liabilities could be similarly funded.

A flow chart illustrating the accrual and transfer of these funds follows:

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4 Pursuant to the advice of Tax Counsel, the Bond Reserves of $10.7 million was mandatorily applied to the refunding and defeasance of debt in 2018 and generated about $3.0 million per year of average debt service reduction.
Recommendations

1. M-S-R PPA’s debt and investment structures should be periodically reviewed to maximize the benefits to M-S-R PPA and its members.

2. M-S-R PPA should evaluate and recommend debt-limit guidelines for use in the strategic evaluation and prioritization of future projects, including consideration of the use of prepay transactions if and when such projects are proposed.

3. As provided in Resolution 2016-04, M-S-R PPA should use funds from Operating Fund 60-day cash reserves formerly associated with San Juan Project costs to fund future San Juan Legacy Liability payments and to hold such Operating Fund 60-day cash reserves in the MCCRA until otherwise directed by the Commission in the future.

4. To consider use of Big Horn Wind Energy Project payment lock-box surplus funds to fund future San Juan Legacy Liability payments if currently held San Juan Project reserves are inadequate.
V. JOINT ACTION OPPORTUNITIES

Background

Although each of the Members has developed its own power supply strategy through a combination of owned and purchased resources and has developed the infrastructure and a level of sophistication to perform their needed functions, there is the potential for the agency to be a vehicle if future joint opportunities arise. Activities examined by M-S-R PPA Members have included joint natural gas operations and wind-energy storage and shaping projects. Opportunities for greater utilization or improvement of existing resources may occur from time to time. M-S-R PPA has been instructed in the past by its Members to prefer individual pursuit of new projects rather than joint M-S-R PPA efforts. As San Juan Generating Station and the SWTP have been divested, M-S-R PPA should develop a plan for its ongoing and future overall structure. For example, should M-S-R PPA become focused solely on the Big Horn projects or are there other potential projects that would be best served by joint action? Are there synergies of needed generation between the Members that will continue to provide an impetus for further joint action? At similar junctures in the past neither the Big Horn Projects nor the Natural Gas Project implemented through M-S-R EA were envisioned prior to their development. However, if no future projects are contemplated and the need for the Agency is limited, it may be appropriate to consider assigning its functions to the Members and dissolving the Agency.

As discussed above, the Agency retains significant legacy liabilities pertaining to the San Juan Project, which will require active management for the foreseeable future. Therefore, dissolution of the Agency may not be permissible under the Tucson/San Juan Project Power Sales Agreement until all legacy liabilities pertaining to the San Juan Project, including but not limited to mine reclamation, plant decommissioning and environmental remediation, are satisfied and the term of related agreements concluded. Dissolution of the Agency may be permissible under the Pacific Northwest Power Sales Agreement once all obligations of the Agency under Pacific Northwest Purchase Contracts (such as the agreements with Avangrid regarding the Big Horn Wind Energy Projects) and Transmission Agreements that may be
applicable or required for Big Horn Wind Energy Project deliveries are satisfied or irrevocable provisions for such satisfaction made. The agreements with Avangrid allow their assignment to M-S-R Members provided such Member(s) is/are rated BBB+ or greater by Moodys or each individually post $5 million Letter of Credit or cash deposit with Avangrid. Under the scenarios evaluated above, the earliest satisfaction of San Juan Project legacy liabilities may not occur before December 31, 2037, the Big Horn Wind Energy Project Extension Term runs through September 30, 2031, and the Big Horn II Wind Energy Project term runs through October 31, 2035. Therefore it would appear unlikely that the Agency could be practically dissolved prior to December 31, 2037.

Recommendations

1. Upon the specific request of the Members, M-S-R PPA should continue to collect information on resource opportunities as they present themselves to M-S-R PPA. M-S-R PPA will retain this information and make it available to the Members upon request:
   a. Specific power supply alternatives (renewable or non-renewable resources);
   b. Distribution or assignment of assets to Members,
   c. Other risk reduction/mitigation measures; or
   d. Other supply/reliability enhancements.

2. M-S-R PPA should continue discussions and planning for the long-term path and level of involvement in the agency. This should include consideration of potential allocation of agency and other costs on a basis other than the historical 50/35/15 percentages currently in place to align more accurately with member participation in M-S-R PPA projects following the divestiture of San Juan Project interests.

Renewable Portfolio Standard Risk/Opportunity

California has established RPS requirements for utilities pursuant to legislative and executive branch requirements. Proposed Federal and regional requirements are also expected to
require substantial use of additional renewable energy resources. Other Western states have adopted rigorous RPS requirements. Pursuant to current California law, the M-S-R PPA Members adopted their own Renewable Portfolio Standards and have adopted additional policies and procedures to meet the 50% by 2030 state-mandated RPS. The CEC has implemented its reporting process for publicly owned utilities to verify that they are meeting interim targets toward the state-mandated goals. The CEC and the CARB continue to proffer revisions to the RPS and GHG Reporting Regulations. Further additions to RPS and carbon emission limitations continue to be explored by the legislature. M-S-R PPA and its Member entities are actively involved in monitoring and commenting on related CEC processes.

**Regulatory Monitoring and Compliance Program**

On behalf of its Members and with respect to M-S-R PPA’s interests and former interests in the San Juan Project, the SWTP and the Pacific Northwest Project, the Agency has actively participated in regulatory forums before the FERC, the California Energy Commission, the California Air Resources Board, the California Public Utilities Commission and other agencies having jurisdiction over the Agency, its Members, or projects. With the termination of the Agency’s interests in the San Juan Project and the SWTP, the nexus to those activities is not as direct and the Agency needs to evaluate the continuing benefit to its Members of continuing to participate in proceedings before these bodies.

Existing interventions and protests before the FERC regarding transmission rates should be completed, but new interventions and protests should only be entertained when the Members determine there is a common interest that can be more efficiently and effectively prosecuted by joint action. To the extent possible, other entities such as TANC, BANC, or NCPA should take the lead role on activities such as PG&E, SCE, or SDG&E TRR filings. M-S-R PPA should continue to monitor FERC filings and act in a clearinghouse role for the Members only as long as the Members continue to deem it cost-effective. These future activities would be at a significantly lower level than those necessary to support active operation of transmission assets. Remaining activities would generally only apply to issues potentially impacting deliveries of renewable wind energy beyond the BPA system. Only when
specifically directed by the Members would M-S-R PPA support interventions before the FERC related to general or state-wide transmission cost issues.

Proceedings before the CEC, CARB and CPUC regarding RPS compliance matters will continue to fall clearly under the agency’s renewable program and costs and efforts thusly allocated. Proceedings before these same agencies regarding greenhouse gas controls, cap-and-trade programs, and CARB MRR were allocated to the San Juan Project even though they could also be considered to be closely allied to RPS compliance. Under the direction of the Members, the Agency has made extensive comments before these agencies regarding implementation of the Mandatory Reporting Requirements, the RPS Adjustment as it applies to the MRR, and SB 350 implementation. Continuing activities regarding SB 350 implementation (RPS), AB 398 implementation (Cap-and-Trade), or anticipated SB 100 implementation (RPS) are expected to continue in the future.

The M-S-R PPA Commission determined in Resolution 2017-04 Adopting 2018 M-S-R PPA Budget that costs pertaining to the Regulatory and Compliance program be allocated 2/5th to Modesto, 2/5th to Santa Clara, and 1/5th to Redding to reflect the number of parties to the remaining wind energy power purchase contracts on the basis that these costs and activities would likely terminate if M-S-R PPA entirely exits the energy delivery business. Similarly that costs of M-S-R Coordinator services are to be allocated 2/5th to Modesto, 2/5th to Santa Clara, and 1/5th to Redding to reflect the number of parties to the remaining wind energy power purchase contracts and equal burdening of the costs of coordination activities. Finally the Commission determined that administrative and general costs directly allocable to projects continue to be allocated on Participation Shares as defined in the Joint Powers Agreement and that costs currently generally allocated, or formerly allocated to the Southwest Transmission Project, be allocated directly to San Juan legacy activities or to the Pacific Northwest Project where possible.
Recommendations

1. Existing interventions and protests before the FERC regarding transmission rates should be completed, but new interventions and protests regarding state-wide or specific transmission rate issues should only be entertained when the Members determine there is a common interest that can be more efficiently and effectively prosecuted by joint action.

2. M-S-R PPA should continue to participate in proceedings before the CEC, CARB and CPUC regarding greenhouse gas controls, cap-and-trade programs, and CARB Mandatory Reporting Requirements and regarding SB 350, AB 398, and SB 100 implementation as directed by the Members.

3. The activities described in this section regarding FERC, CEC, CARB and CPUC matters shall be designated as the Regulatory Monitoring and Compliance Program and costs therein allocated to the Members on an equitable basis as determined and adopted by the Commission in Resolution 2017-04.

Non-Renewable Resource Projects

From time to time M-S-R PPA is presented with the opportunity to participate in additional non-renewable resource projects. Although such projects are not a priority for the Members, the Members may from time to time request that M-S-R PPA examine such projects.

Recommendations

1. M-S-R PPA should only respond to specific Members requests, if any.
VI. STRATEGIC RISKS AND EXPOSURES

Overview:

M-S-R PPA has developed a strong portfolio of generation assets. In the aggregate these assets have provided many years of cost effective energy supply to M-S-R PPA and its Members. However, there are inherent risks which could have potential adverse impacts to M-S-R PPA and its Members.

There are three broad categories of risk: Operational, Contractual, and Institutional. Individually and collectively they can affect the useful life and cost-effectiveness of M-S-R PPA’s primary assets: the San Juan Project, and the Big Horn Wind Energy Project and by implication, the M-S-R EA Natural Gas Project.

Recommendations

1. M-S-R PPA shall regularly review risks to M-S-R PPA and its Members with respect to their participation in M-S-R PPA and develop mitigation plans as appropriate.

Legislative and Regulatory Management Program

M-S-R PPA has actively participated in the past eight California legislative sessions in the monitoring and amendment of renewable resources legislation and other bills affecting the operation of M-S-R PPA and Member resources. Legislative advocates were retained and an informal structure for obtaining Member positions has evolved. M-S-R PPA has also participated as a non-voting member of the California Municipal Utilities Association (CMUA) Legislative and Regulatory Committee and CMUA Energy Policy Committee.

Recommendations

1. M-S-R PPA will take positions on only those bills and regulatory matters directly affecting M-S-R PPA resources or M-S-R PPA’s duties to its Members. M-S-R PPA may
also, by request of the Members, take positions on bills of common interest to the entire M-S-R PPA membership.

2. The M-S-R PPA General Manager will regularly consult with the Members to coordinate Agency and Member positions on bills and regulatory matters and to develop annual work plans for State and Federal legislative advocacy.

3. M-S-R PPA will retain legislative and regulatory advocates as needed to support its positions on proposed bills and regulations and will coordinate with Members and like-positioned entities and trade associations to promote M-S-R PPA’s interests.
VII. Exhibit “A”

M-S-R Public Power Agency Organization Chart

Revised: July 27, 2018
At its September 24, 2014 meeting, the M-S-R PPA Commission through the adoption of Resolution 2014-09 approved the Agency’s first comprehensive Policies and Procedures Manual. Initially the Manual provided that the General Manager was to annually review the manual and recommend updates or amendments for consideration by the Commission at its September meeting. Subsequently the Commission directed the updates be performed biennially.

The proposed 2018 update includes general status updates, miscellaneous clarifications, and the addition of new policies pertaining to Debt Management, Cyber Security, Conflict of Interest Code Updates, and Use of Reserves (Legacy Liability Funding). Exhibits to the Policy have also been re-ordered to match their appearance in the manual. The proposed updates were reviewed by the Technical Committee at its September 6, 2018 meeting.

The proposed 2018 updates to the Policies and Procedures Manual are attached in clear and redline format to show the changes from the 2016 revision of the Policies and Procedures Manual.

RESOLUTION NO. 2018 – 03

RESOLUTION OF THE COMMISSION OF THE
M-S-R PUBLIC POWER AGENCY
REGARDING 2018 BIENNIAL UPDATE TO
POLICIES AND PROCEDURES MANUAL

WHEREAS, To provide for the efficient administration of the Agency and to clearly delineate the basic authorities and relationships between and among the Agency, its Officers, Staff, and Members it is appropriate to set forth those authorities and relationships in a single document; and

WHEREAS, The latest revision of the Policies and Procedures Manual for the M-S-R Public Power Agency as adopted pursuant to Resolution 2016-03 documents such authorities and relationships; and

WHEREAS, in even-numbered years in conjunction with preparation of the Agency’s Annual Strategic Plan, the M S-R Public Power Agency Policies and Procedures Manual is to be reviewed by the General Manager and Technical Committee and any proposed amendments are to be presented to the Commission for consideration; and

Whereas, such a review has been preformed and an updated Policies and Procedures Manual has been prepared.

NOW, THEREFORE, BE IT RESOLVED BY THE COMMISSION of the M-S-R PUBLIC POWER AGENCY

that:


PASSED AND ADOPTED this 19th day of September, 2018 upon the following vote of the Members:

Modesto Irrigation District
City of Santa Clara
City of Redding

ATTEST:

_______________________
PRESIDENT

_______________________
SECRETARY
M-S-R PUBLIC POWER AGENCY

ORGANIZATION, AUTHORIZATIONS, POLICIES, & PROCEDURES
MANUAL

Technical Committee Review Draft September 6, 2018
Resolution 2018-03

Author 7/25/18 3:25 PM
Deleted: Adopted by Commission 9-28-16
Author 8/4/18 6:39 PM
Deleted: July 27
Author 7/25/18 3:25 PM
Deleted: 2016
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I. INTRODUCTION

The M-S-R Public Power Agency (M-S-R PPA or Agency) is a joint powers agency created in 1980 pursuant to Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California and is governed by a Commission consisting of one representative from each M-S-R PPA Member. Members of M-S-R PPA include the Modesto Irrigation District and the Cities of Redding and Santa Clara, California. The Governing Bodies of the Members appoint M-S-R PPA Commissioners and any Alternates.¹

A. PURPOSE

M-S-R PPA is empowered to acquire, construct, manage, operate, maintain, and finance projects, including but not limited to the purchase, generation, transmission or distribution of energy.

M-S-R PPA’s purpose is to maximize the value of its existing assets for the benefit of the Members and to respond to Member needs where joint action, rather than individual action, is deemed to be in the Members’ best interests. M-S-R PPA is also intended to provide more responsive services to its Members than may be possible from larger or state-wide agencies or associations.

The initial project of M-S-R PPA was to develop a geothermal resource. In 1982, the Joint Exercise of Powers Agreement (JPA) was amended and restated to allow for the development of the San Juan Project (as further described in § IV (A) (a) of this manual) which was an undivided interest in an operating coal unit in New Mexico and supporting utility services from the Tucson Electric Power Company (TEP). In 1990, Amendment Number 1 to the JPA was approved to allow for the development of transmission assets for delivery of capacity and energy from the San Juan Project to California (Southwest Transmission Project or SWTP) beginning in 1995. In 2006, Amendment Number 2 to the JPA extended the term of the JPA indefinitely, but prohibited termination until all Agency obligations are satisfied. In 2016, the ownership interests in the SWTP were sold to the Southern California Public Power Authority (SCPPA) and the energy generating assets of the San

¹ Joint Exercise Of Powers Agreement of the M-S-R Public Power Agency By And Among the Modesto Irrigation District and the City Of Santa Clara and the City Of Redding, dated as of April 29, 1980, Amended and Restated as of November 17, 1982, as amended by Amendment Number 1 to the Amended and Restated Joint Powers Agreement, dated June 26, 1990, and by Amendment 2 to the Amended and Restated Joint Exercise of Powers Agreement, dated January 24, 2006.
Juan Project were sold to the Public Service Company of New Mexico (PNM) in 2017. M-S-R PPA’s remaining obligations related to the San Juan Project include shares of plant decommissioning cost, mine reclamation cost, and potential environmental liabilities (referred to as “Legacy Liabilities” and as further described in § IV (A) (a) of this manual).

B. RESPONSIBILITY

The Agency is a California joint powers agency created pursuant to the California Government Code and is subject to California laws generally applicable to public agencies, including, but not limited to, the Ralph M. Brown Act, Public Records Act, Political Reform Act and other conflict of interest laws. The Agency and its officials must abide by the Conflict of Interest Code adopted by the California Fair Political Practices Commission for the Agency. M-S-R PPA is governed by its Commission. The M-S-R PPA Commission meetings are chaired by its President, a Commissioner who is subject to annual election by the Commission\(^2\). The M-S-R PPA Commission meets monthly, generally on the third Wednesday following the first Monday of the month, pursuant to a schedule adopted by the Commission prior to the close of the prior year\(^3\). Minutes of Commission meetings are taken by the Secretary, who is appointed by the Commission. The Commission may or may not choose to elect a Vice-President.

C. MANAGEMENT

M-S-R PPA’s General Manager directs Agency activities and reports directly to the M-S-R PPA Commission. The General Manager oversees the contracts and performance of consultants and advisors, and coordinates the activities of M-S-R PPA’s standing and any Ad Hoc Committees. The current M-S-R PPA standing committees are the Technical Committee, the Financial Management Committee, and the Risk Management Committee.

The office of the General Manager was originally created in 1980 to carry out delegated authorities assigned by the Commission and was first filled by Modesto Irrigation District (Modesto) staff members (Charles S. Viss (1980 – 1987) and Kenneth H. McKinney (1987 – 1996). In 1996 Dennis

\(^2\) Resolution No. 2013 – 01 Adopted March 20, 2013 Regarding Election and Duties of Officers.
\(^3\) Resolution No. 2013 – 05 Adopted October 16, 2013 Regarding Meeting Schedules And Procedures For Posting Of Agendas For The M-S-R PPA Commission.
W. DeCuir was engaged as Interim General Manager and was directed to prepare a Strategic Plan for the Agency and to recruit an independent General Manager. Subsequent General Managers have been retained by the Commission pursuant to Professional Services Agreements specifying their duties and as codified in Resolution 2013 – 01 referenced above. The independent General Managers include William C. Walbridge (1997 – 2003), George F. Fraser (2004 – 2006) and Martin R. Hopper (2007 – 2008 as M-S-R Director, a position created by the Commission which temporarily had all the rights, obligations, and authorities of a General Manager and 2008 – Present as General Manager.)

Pursuant to the JPA, the Treasurer and Controller of Modesto are designated to the same positions for the Agency. The Modesto Board of Directors determines the charges made for such services, with concurrence of the Agency, as provided under California Law.

Legal services for the Agency are furnished by independent providers including General Counsel, Bond Counsel, FERC Counsel, California Regulatory Counsel, BPA Counsel and local counsel as required. Incumbent providers include:

- **General Counsel:** In August 1997, M-S-R PPA entered into an agreement with Porter Simon, Professional Corporation to provide independent General Counsel services to the Agency.\(^4\) This agreement may be terminated at-will by the Agency.

- **Bond Counsel:** In May 1997, M-S-R PPA entered into its current agreement with Orrick, Herrington & Sutcliffe, LLP for Bond Counsel services.\(^5\) This agreement may be terminated at-will by the Agency.

- **FERC Counsel:** In January 1986, M-S-R PPA entered into a legal services agreement with Duncan, Weinberg & Miller, PC, now known as Duncan, Weinberg, Genzer & Pembroke, PC, for FERC Counsel services.\(^6\) This agreement may be terminated at-will by the Agency.

- **California Regulatory Counsel:** In April 2013, M-S-R PPA entered into a Legal Services Agreement with Law Offices of Susie Berlin, as successor to McCarthy and Berlin LLP,

\(^4\) Agreement for Legal Representation between Porter Simon Professional Corporation and M-S-R Public Power Agency dated as of August 1, 1997.

\(^5\) Engagement Letter For Bond Counsel Services Outside a Specific Financing Program Between the M-S-R Public Power Agency And Orrick, Herrington & Sutcliffe LLP dated as of May 27, 1997.

\(^6\) Legal Services Agreement Between the M-S-R Public Power Agency and Duncan, Weinberg & Miller, PC dated as of January 17, 1986.
for California regulatory counsel services. This agreement may be terminated at-will by the Agency.

- **BPA Counsel**: BPA Counsel services are provided by Duncan, Weinberg, Genzer & Pembroke, PC, who also act as FERC Counsel pursuant to their existing Legal Services Agreement as referenced above.

- **New Mexico Counsel**: In September 2010, M-S-R PPA entered into an Engagement Letter with Montgomery & Andrews, PA for New Mexico counsel services. This agreement may be terminated at-will by the Agency.

Professional consulting, advisory and auditing services are furnished by independent providers including Financial Advisor, General Consultants, California Legislative Advocacy, and Financial Auditor as required. Incumbent providers include:

- **Financial Advisor**: In December 2009, M-S-R PPA entered into an agreement with Montague DeRose and Associates, LLC (Montague DeRose) for Financial Advisor Services. As amended, the term of this agreement is through December 31, 2018 with optional renewals. In July 2016 this agreement was further amended to add certain disclosures and acknowledgements as provided by law.

- **General Consultant**: In September 2010, M-S-R PPA entered into an agreement with KBT, LLC (KBT) for the purpose of securing General Consulting services. M-S-R PPA has KBT available to perform specific tasks as assigned by the General Manager regarding generation, transmission, renewable energy, and administrative services. The term of this agreement is open-ended but can be terminated upon 30 days notice.

- **General Consultant**: In July 1999, M-S-R PPA entered into an agreement with Resource Management International, Inc, now known as Navigant Consulting Inc, (NCI

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7 Legal Services Agreement By and Between Law Offices of Susie Berlin and the M-S-R Public Power Agency dated April 1, 2013.
9 Agreement For Professional Financial Advisor Services by and between M-S-R Public Power Agency, and Montague DeRose And Associates, LLC, effective January 1, 2010, as amended through Amendment No. 2.
10 Agreement for Professional Services by and between KBT, LLC and M-S-R Public Power Agency dated September 15, 2010.
or Navigant) as amended\(^{11}\), for the purpose of securing General Consulting services. M-S-R PPA has NCI available to perform specific tasks as assigned by the General Manager regarding generation, transmission, renewable energy, and administrative services. The term of this agreement is open-ended but can be terminated upon 30 days notice.

- California Legislative Advocacy: In January 2013, M-S-R entered into a Professional Services Agreement with Político Group for California legislative advocacy services as directed by the General Manager regarding generation, transmission, and renewable energy issues\(^ {12}\). The term of this agreement has been extended through December 31, 2018, and may be terminated upon 30 days notice.

- Financial Auditor: Effective November 18, 2015, M-S-R PPA entered into an agreement with Baker Tilly Virchow Krause KBT, LLP (BT-VK) for the purpose of securing Financial Audit services\(^ {13}\). M-S-R PPA has BT-VK available to prepare financial statements and to perform annual audits under the review of the Commission. This agreement provides for a fixed price for audit services through the completion of the audit for the Agency’s fiscal year ending December 31, 2019.

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\(^{12}\) Agreement For Professional Services By And Between M-S-R Public Power Agency and Político Group effective as of January 1, 2013.

\(^{13}\) Engagement of Baker Tilly Virchow Krause LLP as independent accountants dated September 25, 2015.
M-S-R PPA Organization Chart (As of September 19, 2018):

M-S-R Public Power Agency Organization Chart

Commission
McKell (President), Kuehn (Vice President), Ream
Alternate: Molenda, Cahn, Pickley, Smith

General Counsel
Steve Gein, Eq

Secretary
Steve Gein, Eq

Assistant Secretary
Marie Meier

Controller
Bill Door

Treasurer
Scott Van Vuren

General Manager
Martin Meier

Administrative Assistant
Amy Steier

Technical Committee
Meier (Chair - Ex-Officio)
Putney, Hughes, Hardy
Alt: Cahn, Pickley, Smith

M-S-R Coordinator
Kuehn (per contract w/ Messenger)

Financial Management and Accounting Coordinator
Meier (Chair - Ex-Officio)
Van Vuren, Smith, Hardy
Alt: Door, Hughes, Putney

Risk Management Committee
Meier, Smith, Hardy

Special Committee & Assignments

Revised: July 27, 2018
II. ORGANIZATION AND AUTHORITIES

The JPA organizes the Agency as described in the previous section to provide for governance, management, and conduct of M-S-R PPA’s activities. All financial decisions are made by the Commission, except for those specifically delegated to the General Manager. Policy direction is provided by the M-S-R PPA Commission. Policy is further provided in the Annual Strategic Plan, which is updated by the Technical Committee and adopted by the Commission on an annual basis.

A. M-S-R PPA PRESIDENT

The M-S-R PPA President, as specified in Resolution 2013 – 01, Election and Duties of Officers, shall preside at all meetings of the Commission when he or she is present, cause an agenda to be prepared and distributed by the General Manager in advance of the meeting, which shall list each item of business or correspondence to come before the meeting insofar as is known, may act as an official spokesman of the Agency at the direction of the Commission, make all appointments except as otherwise provided, execute contracts on behalf of the Agency when authorized by the Commission and perform such other duties as are assigned to him or her from time to time by the Commission.

B. M-S-R PPA VICE PRESIDENT

The Vice-President performs the duties of the President in the absence or disability of the President.

C. GENERAL MANAGER

The Commission has assigned the General Manager certain duties to carry out on behalf of the Agency as enumerated in Resolution 2013 - 01 and specified in his Professional Services Agreement. The General Manager chairs certain standing committees. The General Manager maintains the authority to act within Commission direction and policy contained within the Annual Strategic Plan in carrying out his duties. The General Manager has also been designated as a Special Agent of the Agency.

14 Amended and Restated Management Services Agreement by and between M-S-R Public Power Agency and Martin R. Hopper dba Martin Hopper Energy Consulting effective as of, January 1, 2010, as amended.
D. SECRETARY

The Secretary keeps the minutes and files of the Agency, authenticates its acts and keeps a correct roll of each member of the Commission, and his or her alternate. The Assistant Secretary shall perform the clerical duties of the office, and shall act as Secretary in the absence or disability of the Secretary. The Commission appointed the General Counsel as Secretary and the General Manager or his or her designee as Assistant Secretary. Their respective duties are also set forth in Resolution 2013-01.

E. M-S-R PPA COMMITTEES

There are presently three active standing M-S-R PPA Committees:

- Technical Committee
- Financial Management Committee
- Risk Management Committee

In 2011, the Commission instructed the General Manager to abolish previous committees created by the General Manager and established the Technical and Financial Management Committees. These Committees are subject to and will comply with the Ralph M. Brown Act. The Commission adopted Rules of Procedures for both Committees that are structured similarly.15 16 Neither Committee shall have any officers. The General Manager shall preside over and cause minutes to be prepared of each meeting. The General Manager will coordinate the efforts of Members providing services to the Committees and shall oversee the support provided by General Counsel and any contractors also providing services to the Agency.

The duties of the Technical Committee include, but are not limited to: 1) annually recommend a five-year strategic plan for the Agency; 2) review proposals for the acquisition or divesture of resources; 3) recommend modifications of arrangements supporting the management or operation of resources; 4) review individual Member issues with the Agency brought to the attention of the Technical Committee for discussion and potential resolution; 5) review and develop strategies for complying with regulatory issues and other externalities; 6) review the technical aspects of legal action, whether

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current, pending, or under consideration; and 7) address other issues that may be specifically assigned by the Commission.

The duties of the Financial Management Committee include, but are not limited to: 1) review and consideration of candidates for Financial Advisor; 2) review and consideration of candidates for Bond Counsel; 3) coordinate with the Financial Advisor and Bond Counsel to the extent necessary; 4) review of proposals for the financial products that may be solicited or unsolicited that may be beneficial to the financial management of the Agency; 5) recommend modifications of arrangements supporting the financial management of assets; 6) implement the Risk Management Policy and communicate risk management issues to the Commission together with the General Manager, oversee the Risk Management Committee together with the General Manager, and oversee the activities of the Coordinator Services Coordinator together with the General Manager; 7) review individual Member issues with the Agency brought to the attention of the Financial Management Committee for discussion and potential resolution; 8) review and develop strategies for complying with financial management issues and other externalities; 9) review the financial aspects of legal action, whether current, pending, or under consideration; and 10) address other issues that may be specifically assigned by the Commission. These duties are reiterated in the Agency’s Debt Management Policy adopted May 17, 2017 as referenced in Section III (H).

These duties are reiterated in the Agency’s Debt Management Policy adopted May 17, 2017 as referenced in Section III (H).

The Risk Management Committee was established by the Commission with the adoption of the Energy Risk Management Policy and Risk Management Committee Guidelines. This Committee is subject to and will comply with the Ralph M. Brown Act. The duties of the Risk Management Committee include, but are not limited to: 1) establish the processes and frequency for measuring, monitoring, and reporting the business risks that are within the scope of the Risk Management Policy, 2) approve all methodologies used in risk measurement, 3) monitor the Coordinator Services Contractor (whose duties and authorities are described in Section IV (A) of this Policy Manual) compliance with the Risk Management Guidelines, 4) present reports to the General Manager and Financial Management Committee detailing risk management activity, 5) perform an annual review of the Risk Management Committee Guidelines to maintain procedures and limits appropriate with the business activities of the Agency, 6) establish Risk Management Committee meeting procedures, 7) meet no less frequently than annually, 8) review transaction and risk reports.

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F. FISCAL AUTHORIZATION

The M-S-R PPA Commission approval of the annual budget and strategic plan for a fiscal year is the authorization for the conduct of all activities included in the annual budget. Pursuant to Section 2.2 of the Joint Exercise of Powers Agreement of the M-S-R Public Power Agency, the Members pay for the costs associated with the operation of the Agency and are entitled to all rights and property of the Agency in the following portions: Modesto 50%; Santa Clara 35%; and Redding 15%. Project Agreements or unanimously adopted resolutions may provide for differing allocations of costs. Typically, all work for the Agency is routine in nature. If additional outside assistance is required of legal counsel or consultants or can be provided by Member staff, particularly if such work is outside the annual budget limits, the General Manager will consult with the appropriate standing committee to assess support for a Task Order to complete such work and will seek authorization from the Commission if the level of effort is deemed by the General Manager to be of significant magnitude to warrant a budget modification or augmentation.

Work elements are defined in the annual strategic plan that informs the approved budget. Most activities are described, known ahead of time, and are repetitive (e.g. preparation for and support of the meetings of M-S-R PPA Committees and the Commission). Thus, no additional authorization is required to perform such activities.

The Agency has also covenanted to collect sufficient funds to meet all its obligations and to meet the debt service coverage requirements in its Bond Indentures and the annual budget must be so set by the M-S-R PPA Commission. Procedures for the calculation of debt service coverage have been reviewed by Bond Counsel and adopted by the Commission. In 2016 the Agency created a Debt Service Coverage Revolving Fund to assure maintenance of debt service coverage through the remaining life of San Juan Project Bonds.

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G. **CONFLICT OF INTEREST POLICY**

The Political Reform Act (Government Code Section 81000, et seq.) requires state and local government agencies to adopt and promulgate conflict of interest codes. The M-S-R PPA Conflict of Interest Code was most recently updated in 2016 and was approved by the California Fair Political Practices Commission effective July 6, 2016\(^2\).
III. TREASURER/CONTROLLER FUNCTIONS, BUDGET DEVELOPMENT, THE INVOICE APPROVAL PROCESS, REIMBURSEMENT AND INVESTMENT POLICIES.

This section of the manual outlines various actions and activities undertaken by PPA’s Treasurer/Controller. Also discussed herein are authorities related to the annual budget and strategic plan development processes, as well as invoice approval controls used by Controller staff and Agency expense policies.

A. TREASURER AND CONTROLLER

The positions of Treasurer and Controller are designated by the JPA as those persons responsible for the financial management of the Agency, as well as all other property the Agency may own or control. The Treasurer and Controller of the Modesto Irrigation District serve as Treasurer and Controller for the Agency. The Treasurer and Controller, and Assistant Treasurer(s) and Assistant Controller(s) remain until a future designation by the Modesto Irrigation District.

The Treasurer and Controller are responsible for the payment of Commission and/or General Manager-approved expenditures and payments in accordance with the Agency’s Invoice Approval Procedure described below. The Treasurer and Controller are also authorized to withdraw moneys from the Agency’s funds and accounts. The Treasurer and Controller cause the preparation of the Agency’s accounts and records in accordance with the latest accounting rules promulgated by the Government Accounting Standards Board (GASB) for recording financial transactions by government agencies. In the absence of GASB accounting rules, the Agency is required to follow Financial Accounting Standards Board (FASB) accounting rules to record accounting transactions. An Asset Capitalization Policy has been adopted to provide guidance to the Controller in making determinations as to whether certain expenditures should be charged to utility plant or to expense.

Pursuant to Government Code Section 6505(e) and the directives of the General Manager, the Treasurer causes the preparation of monthly Treasurer’s Reports for presentation to the Commission.

21 Resolution No. 2012-03 Adopted July 18, 2012 Approving Signatories Authorized to Invest M-S-R Public Power Agency Monies in the Local Agency Investment Fund and Other Permitted Investments.

at each of its regular meetings. Pursuant to Government Code Sections 6505(b) and 26909(a)(2) and Section 17.2 of the M-S-R PPA Joint Power Agreement, the Controller shall cause the annual audits of the accounts and records of the Agency to be prepared and filed with the Bond Trustee, the State Controller and the Stanislaus County Auditor.

B. WORKING CAPITAL AND MEMBER PAYMENTS

To allow the Agency to invoice the Members monthly for actual generation and variable costs incurred in the prior month and not utilize estimated invoices billed in advance of expenditures, the Agency maintains a nominal 60-day working capital reserve in its Operating Fund. The Agency also has created a Member Cash Call Reserve Account (MCCRA) whereby funds may be accumulated at the direction of the Commission for unexpected operation and maintenance expenses, repair costs, capital improvements, replacements, or betterments related to M-S-R Projects, and to reduce debt or make debt service payments. The Agency’s fixed costs, including Debt Service payments are invoiced monthly at one-twelfth of the total amounts adopted in the Annual Budget and true-up after the close of the fiscal year. Working capital requirements are reviewed on an annual basis as part of the preparation of the Annual Budget. Member payments are made by wire transfer or electronic equivalent pursuant to a policy previously implemented for M-S-R PPA on the basis of administrative efficiency.

In 2016, the Commission adopted a policy designating various uses and transfers of reserves and working capital related to the payment of existing and potential San Juan Project Legacy Liabilities. The Commission also has adopted a policy specifying the procedures for payments made by a third party on behalf of a Member and a policy harmonizing the late payment provisions of the Tucson/San Juan Project Power Sales Agreement and the Pacific Northwest Project Power Sales Agreement.

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23 Memorandum Dated November 23, 2015 Regarding Filing of Quarterly Treasurer’s Reports and Annual Audits
25 Resolution No. 99-01, Adopted November 17, 1999 Establishing a Member Cash Call Reserve Account Policy and a Member Cash Call Reserve Account.
26 M-S-R PPA Director’s administrative directive dated June 8, 2007.
28 Resolution No. 95-3 Adopted April 19, 1995 Establishing A Policy For Payments By Third Parties On Behalf Of A Member To The Agency.
29 Resolution No. 2018-02, Adopted September 19, 2018, Regarding Late Payment Policy.
C. M-S-R PPA ANNUAL BUDGETS

The fiscal year for both M-S-R PPA and Modesto budgets are January 1 through December 31. However, the fiscal year for both the Cities of Santa Clara and Redding budgets are July 1 through June 30. To meet the needs of all Members, two-year rolling budgets for the Agency are prepared annually. The second year budget is to assist Members with planning and is non-binding. As discussed in Section II, the M-S-R PPA Annual Budget is the authorization for the conduct of all Agency activities.

D. PROCUREMENT POLICY

Although the Agency does not typically engage in public works or procure goods on behalf of its Members, as specified in Resolution 2013–08, it is the policy of the Agency to make competitive procurements and retain highly qualified professional service providers in the best interests of its Members.

E. INVOICE APPROVAL PROCESS

As specified in Resolution 2009–02, all invoices, bills, demands, and claims upon the Agency are paid by the Treasurer on the recommendation of the General Manager or President or their respective designees and on the review of the Controller or his respective designees. At each regular meeting of the Commission of the M-S-R PPA, the Treasurer makes a report of all invoices, bills, demands, and claims paid since the prior regular meeting of the Commission.

F. REIMBURSEMENT POLICIES

As specified in Resolution 2013–09, M-S-R PPA adopted a policy by which the Agency reimburses its Members for actual costs incurred when they provide support services to the Agency at the direction of the General Manager.

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Resolution No. 2009–02, Adopted May 20, 2009, Regarding The Timely Payment Of Invoices And Making Certain Delegations Of Agency
Resolution No. 2013–09, Adopted on October 16, 2013, Regarding Reimbursement of Costs of Support Services Provided By Member Agencies.
G. INVESTMENT POLICIES

M-S-R PPA maintains an Investment Policy pertaining to the funds of the Agency in conformance with Title 5, Division 2, Part 1, Chapter 4 of the California Government Code, commencing with Section 53600, which is annually reviewed and adopted by motion of the Commission. 33

H. DEBT MANAGEMENT POLICY

On May 17, 2017, the M-S-R PPA Commission established a Debt Management Policy34 in compliance with Government Code Section 8855(i). The purpose of this policy is to:

- Maintain a sound financial position.
- Ensure flexibility to respond to changes in future service priorities, revenue levels, and operating expenses.
- Protect credit-worthiness.
- Ensure that all debt is structured in order to protect both current and future wholesale customers and ratepayers of M-S-R PPA’s Members.
- Ensure that the debt is consistent with M-S-R PPA’s planning goals and objectives, capital improvement program and/or budget, as applicable.

Due to the issuance of the San Juan Project Revenue Bonds Series 2018R on June 12, 2018, the Agency is required to issue an annual debt transparency report pursuant to Government Code Section 8855(k) commencing on or before January 31, 2019.

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33 Investment Policy Guidelines of the M-S-R Public Power Agency 2018 (approved by Commission January 24, 2018.)
A. M-S-R PPA PROJECTS AND RELATED OPERATING PROCEDURES

a. SAN JUAN PROJECT:

The San Juan Project originally included a 28.8% Ownership Interest (approximately 146 MW) in Unit 4 of the San Juan Generating Station (SJGS) and related services provided by TEP. The Members’ rights and obligations pertaining to the San Juan Project are specified in the Tucson/San Juan Project Power Sales Agreement. Pursuant to the San Juan Project Restructuring Agreement, M-S-R PPA divested this Ownership Interest effective December 31, 2017 and no longer receives electric energy or capacity from the San Juan Generating Station. M-S-R PPA’s remaining obligations related to the San Juan Project are described as “Legacy Liabilities” and in general are governed by the Restructuring Agreements. Particular obligations related to plant decommissioning expense are further addressed in the Decommissioning Agreement. Particular obligations related to mine reclamation expense are further addressed in the Reclamation Agreement. Particular obligations related to potential environmental liabilities are addressed in the Restructuring Agreement and restated in the Restructuring Amendment and Restating the Amended and Restated San Juan Project Participation Agreement as amended by the San Juan Restructuring Agreement and restated as the Restructuring Amendment Amending and Restating the Amended and Restated San Juan Project Participation Agreement. The provision of reserve sharing and power exchange services is provided by two surviving Service Schedules to an Interconnection Agreement Between Tucson Electric Power Company and M-S-R Public Power Agency dated September 20, 1982, to wit: Service Schedule D, which is the Power Exchange Agreement whereby TEP delivers M-S-R PPA energy entitlements in San Juan Generating Station to Moenkopi Substation, Westwing Substation, and Palo Verde Switchyard in amounts as determined by M-S-R PPA free of cost or transmission losses; and Service Schedule E provides for reserve sharing across the M-S-R PPA and TEP ownership interests in the San Juan Generating Station whereby M-S-R PPA originally shared its Unit 4 scheduling rights with those of TEP in Unit 3 of the San Juan Generating Station. Upon TEP’s assignment of Unit 3 in 1984 to a subsidiary, Service Schedule E was amended and those rights formerly in Unit 3 were split evenly between the scheduling rights of TEP in Unit 1 and Unit 2. The provisions of Service Schedules D and E are implemented through Operating Procedure No. 1.  

41 Tucson/San Juan Project Power Sales Agreement dated November 17, 1982, as amended August 30, 1999, between the M-S-R Public Power Agency and the Modesto Irrigation District, the City of Santa Clara, and the City of Redding.
Agreements. For a history of the operating phase of the San Juan Phase see Section V. (J) Past Projects, San Juan Generating Station (Operating Phase.)

The oversight committees established pursuant to these agreements and representatives assigned by the Agency are shown in the Organization Chart on page 9. An annual forecast of Agency expenditures for the San Juan Project is provided in the San Juan Ten-Year Forecast and Legacy Liability Funding Status Report which is prepared by the Technical Committee and reviewed by the Commission. 45

b. PACIFIC NORTHWEST PROJECT

The Pacific Northwest Project currently consists of power sales agreements with subsidiaries of Avangrid Renewables, Inc. (Avangrid) for energy (249.5 MW installed capacity) and renewable energy credits (RECs) from the Big Horn I and Big Horn II Wind Energy Projects located near Bickelton, Washington as delivered to the Members at the California-Oregon Border. The Members rights and obligations pertaining to the Pacific Northwest Project are specified in the Pacific Northwest Project Power Sales Agreement. 46

c. OPERATING AGREEMENT AND M-S-R COORDINATOR

The Amended and Restated Operating Agreement 47 (Operating Agreement) details how M-S-R PPA will perform the power scheduling, accounting, marketing, coordination and dispatching functions associated with M-S-R PPA resources on behalf of the Members and the Members’ responsibilities to M-S-R PPA for the purposes of the foundational agreements for San Juan Project (including the Southwest Transmission Project) and Pacific Northwest Project. Management of the Service Schedules to the Operating Procedures is conducted by Member representatives pursuant to Section

45 San Juan Ten-Year Forecast and Legacy Liability Funding Status Report, noted and filed by the M-S-R Commission January 24, 2018.
46 Second Amended and Restated Pacific Northwest Project Power Sales Agreement dated May 24, 2005 between the M-S-R Public Power Agency and the Modesto Irrigation District, the City of Santa Clara, and the City of Redding.
47 Amended and Restated Operating Agreement Between The M-S-R Public Power Agency and the Modesto Irrigation District, The City of Santa Clara, California, and The City of Redding, California dated February 1, 1997 with service schedules that may be revised from time to time. This agreement superseded the “Principles for the Scheduling and Dispatch of the M-S-R Public Power Agency’s San Juan Project Power,” dated June 20, 1984.
25 of the Operating Agreement, such representatives constituting the M-S-R PPA Technical Committee.

The Operating Agreement creates the position of M-S-R Coordinator, the functions of which were initially performed by Modesto. As the necessary functions of Coordinator expanded, the Members decided to formalize the duties through a services contract. After a competitive bid process, Modesto was awarded the initial contract and has served as Coordinator continuously ever since. The Coordinator is authorized to enter into transactions on behalf of M-S-R PPA, if requested by a Member for that Member’s account, or to unilaterally enter into transactions on behalf of M-S-R PPA, in case a Member fails to meet its obligations.

Specific Service Schedules to the Operating Agreement apply to each of the Projects (or special aspects thereof) and are modified as necessary to accommodate the needs of the projects. Several of these Service Schedules became unnecessary with the divestiture of the San Juan assets as was the case with some Service Schedules associated with the SWTP.

i. Operating Agreement Service Schedule A – Big Horn Wind Energy Project.

Service Schedule A applies to the amended and restated accounting procedures for the Big Horn Energy Wind Project. Big Horn is a 199.5 MW facility comprised of 133 1.5 MW wind machines with the output shared between the Members 12.5%/53.5%/35%. M-S-R PPA pays for two services: 1) the production of energy at the site, and 2) the shaping and firm delivery of energy to the California-Oregon Border. Because energy scheduling is performed in whole megawatts, Appendix A was developed to allocated energy based upon the actual deliveries to M-S-R PPA made by Avangrid. As this project was developed in two phases with different pricing structures, Appendix B develops the hybrid pricing algorithm for the sharing of energy costs. Appendix D provides the timing associated with the receipt and payment of monthly energy invoices. Appendix F provides the timing associated with the receipt and payment of the monthly

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49 Amended and Restated Service Schedule A to the Operating Agreement, Big Horn Operating Procedures, adopted by the M-S-R PPA Commission November 18, 2006.
firming and shaping invoice.

ii. Operating Agreement Service Schedule B – Reserved.

Service Schedule B was terminated March 8, 2018.

iii. Operating Agreement Service Schedule C – Reserved.

Service Schedule C was terminated August 4, 2016.


Service Schedule D listed various economy energy agreements held by M-S-R PPA with utilities in the Southwest. Currently, only the WSPP agreement remains.

v. Operating Agreement Service Schedule E – Reserved.

Service Schedule E was terminated March 8, 2018.

vi. Operating Agreement Service Schedule F – Reserved.

Service Schedule F was terminated March 8, 2018.


Service Schedule G was terminated March 8, 2018.

viii. Operating Agreement Service Schedule H – Reserved.

Service Schedule H was terminated August 4, 2016.

ix. Operating Agreement Service Schedule I – Reserved.

Service Schedule I was terminated August 4, 2016.

x. Operating Agreement Service Schedule J – Reserved.

Service Schedule J was terminated March 8, 2018.

xi. Operating Agreement Service Schedule K – Operating and Accounting Procedures For Big Horn II Wind Energy Project.

Service Schedule K provides operating and accounting procedures for the Big Horn II Wind Project. Big Horn II is a 50 MW facility comprised of 25 - 2.0 MW wind

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TechniCal C’tee Review Draft – 22 – September 6, 2018
machines with the output shared between the Members 65%/35%/0%. M-S-R PPA pays for two services: 1) the production of energy at the site, and 2) the redelivery of fixed and variable energy to the California-Oregon Border. Because energy scheduling is performed in whole megawatts, Appendix A was developed to allocated energy based upon the actual deliveries to M-S-R PPA made by Avangrid. Appendix B develops the pricing algorithm for the sharing of energy costs. Appendix C shows a computation of Member Pricing. Appendix D provides the timing associated with the receipt and payment of monthly firm energy invoices. Appendix E provides the timing associated with the receipt and payment of monthly variable energy invoices. Appendix F provides the timing associated with the receipt and payment of the monthly firming and shaping invoice.

B. ENVIRONMENTAL COMMODITIES

a. RENEWABLE ENERGY CREDITS (WREGIS RECs)

In addition to the wind energy received from the Avangrid subsidiaries operating the Big Horn and Big Horn II Wind Projects, M-S-R PPA also receives title to all associated environmental commodities including Renewable Energy Credits (RECs). One MW of eligible renewable energy created translates into one REC. RECs are used by the Members, among other purposes, to meet their Renewable Portfolio Standard (RPS) requirements pursuant to California Law. M-S-R PPA receives the RECs from Avangrid, M-S-R PPA then allocates these RECs to the Members in proportion to the energy produced from the wind projects. RECs are accounted for and tracked in the Western Renewable Energy Generation Information System (WREGIS) and retired according to the requirements of the California Air Resources Board and California Energy Commission. M-S-R PPA has created a special Policy and Procedure No. 2009-01 to formalize the accounting and distribution of WREGIS RECs.52

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51 Operating Agreement Service Schedule K – Operating and Accounting Procedures For Big Horn II Wind Energy Project adopted by the M-S-R Commission May 18, 2011 pursuant to Resolution 2011-05.
b. **CLEAN AIR ACT ALLOWANCES**

Consistent with the Clean Air Act of 1990, the U.S. Environmental Protection Agency (EPA) enacted a requirement that SO₂ emitting plants be limited in their emissions. In addition, for each emitting source, the owner or operator needed to specify a Designated Representative (DR) to fulfill reporting requirements and be liable for violations. PNM as San Juan Generating Station Operating Agent provided the DR and Alternative Designated Representative (ADR) pursuant to an agreement.

As part of the Clean Air Act program, the San Juan Generating Station was awarded an annual base number of SO₂ allowances that, pursuant to formula, represent an average operating year. Pursuant to a Policy adopted by motion of the M-S-R PPA Commission September 28, 2005, M-S-R PPA sold a limited quantity of these allowances until the market for SO₂ allowances virtually collapsed. Allowances remaining after the divestiture of the Agency’s operating interest in SJGS are in the process of being transferred to the Members for their future use.

C. **M-S-R PPA LEGISLATIVE PROGRAM**

The primary goal of M-S-R PPA’s Legislative and Regulatory Program is to preserve and enhance the value of M-S-R PPA assets. These assets include the San Juan Project, the Southwest Transmission Project and include the Big Horn Wind Energy Projects. M-S-R PPA only takes positions on those bills and regulatory matters directly affecting M-S-R PPA resources or duties to its Members. M-S-R PPA may also, by request of the Members, take positions on bills of common interest to the entire M-S-R PPA membership. Legislative and Regulatory Workplans, for both State and Federal levels, set forth the Agency’s issues and objectives for the current year and are updated as needed.

D. **WEBSITE ACCESS, PUBLIC RECORDS REQUEST, PHOTOCOPY POLICY, AND POSTING OF PUBLIC DOCUMENTS**

M-S-R PPA maintains a website at www.msrpower.org. Its purpose is to provide basic information on an annual basis.


54 California and Federal Legislative And Regulatory Representative Workplans 2018.
on the Agency and its projects, provide contact information, and to post notices and information as required by the California Government Code and Agency Policy. By motions of the Commission, M-S-R PPA has adopted a Privacy Statement55 and Terms of Use Agreement56 applicable to users of the website.

Through adoption of this Policy and Procedure Manual, it is the policy of M-S-R PPA to comply with all requests for public records, as required by the California Public Records Act, in a reasonable and expeditious timeframe. For regular photocopies, M-S-R PPA will charge a rate of $0.15 per page. For scanning and digitizing a document in PDF format, M-S-R PPA will charge a rate of $0.10 per page. Existing PDF format documents responsive to a public records request, if provided electronically, will be made available at no charge to the requestor. If copies can be made at lesser cost by an outside service provider, M-S-R PPA will only charge actual fees of such service provider for duplication. These fees were determined based upon review of actual costs for paper, office equipment, and maintenance of said equipment.

M-S-R PPA posts agendas and notices of public meetings at http://msrpower.org/Documents.aspx as required in the California Government Code and the previously referenced Resolution 2013–04 Regarding Meeting Schedules And Procedures For Posting Of Agendas For The M-S-R PPA Commission. M-S-R PPA may also post documents relevant to the conduct of the Agency’s business which are not mandated by the Government Code on its website, including, but not limited to SB 272 Compliance, the Annual Budget, the Annual Financial Reports, M-S-R PPA Commission meeting minutes, and various M-S-R PPA committee meeting minutes.

E. CYBER SECURITY POLICY

M-S-R PPA does not have any facilities designated as Critical Energy Infrastructure (CEI) and hence does not have a formal cyber security policy. As a matter of course, ordinary and prudent precautions are taken to maintain the security of the Agency’s email and website access. The M-S-R Coordinator maintains separate responsibility to maintain appropriate cyber security measures related to any CEI under its supervision and is subject to review and audit by WECC pursuant to the applicable NERC

Reliability Standards and the WECC Regional Reliability Standards.

F. DOCUMENT RETENTION POLICY

As specified in Resolution 2013 – 02, M-S-R PPA adopted a document retention policy which sets forth administrative practices related to the retention, distribution, and disposition of public documents in accordance with the California Public Records Act.

G. ADOPTION OF CEQA GUIDELINES

As specified in Resolution 95 – 1, the Agency has adopted the model State CEQA Guidelines prescribed by the Secretary of the Resources Agency in Title 14 of the California Code of Regulations, commencing at Section 15000, and as they may be subsequently amended.

H. ADOPTION OF GUIDELINES FOR THE ACQUISITION OF REAL PROPERTY

As specified in Resolution 95–2, the Agency has adopted the model State Relocation Assistance and Real Property Acquisition Guidelines specified in Title 25 of the California Code of Regulations, commencing at Section 6000, and as they may be subsequently amended and the Federal Guidelines, Title 49 of the Code of Federal Regulations, Part 24, and as they may be subsequently amended.

I. M-S-R PPA ANNUAL STRATEGIC PLAN

Each year the Agency prepares a Strategic Plan for consideration by the Commission at its September meeting and to provide input for the consideration and adoption of the M-S-R PPA Annual Budget in November of each year. The Strategic Plan is prepared by the General Manager pursuant to Sections 1 (c) and (e) of his Management Services Agreement.

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57 Resolution 2013–02, Adopted on May 22, 2013, Regarding Retention and/or Destruction of Records.
60 M-S-R Public Power Agency Strategic Plan effective January 1, 2019 (approved by Commission September 19, 2018.)
J. REVIEW OF POLICIES AND PROCEDURES MANUAL

In 2013, the Commission directed the General Manager to review the Agency’s policies and procedures and to coordinate with the Technical Committee in reviewing the authorities and responsibilities of the Agency. This document is intended to meet the Commission’s directive. Commencing in 2014, in even-numbered years, the General Manager reviews the manual and recommends updates or amendments for consideration by the Commission at its September meeting.
V. PAST PROJECTS

Since its founding, M-S-R PPA has participated in a number of projects which were subsequently terminated or did not reach fruition. In addition, M-S-R PPA acquired ownership interests in generating and transmission assets which have been either divested or retired. The following listing is intended to provide an overview of historic activities and provide context for past decisions by the Agency that subsequently influenced the development of its current projects, policies, and procedures.

A. GEOTHERMAL DEVELOPMENT

As its first project, M-S-R PPA bid, and was awarded in 1980, a lease running from January 1, 1981 through December 31, 1985, to develop geothermal resources on the Abril Leasehold in Sonoma County in the “Geysers Known Geothermal Resource Area” (KGRA) in the Coastal Range of mountains in Northern California. M-S-R PPA contracted with a drilling company and explored for geothermal steam. This effort did not yield sufficient steam for commercial use and the project was eventually abandoned. During the drilling effort, certain wastes were accumulated and deposited in a common repository with similar wastes from other projects by other developers. Due to the nature of the waste, there was an ongoing liability for disposal site remediation. Though negotiation, M-S-R PPA contracted with Pacific Gas and Electric Company (PG&E), the largest contributor of waste to the site, and paid for a release of liability for the waste deposited on behalf of M-S-R PPA. Further, M-S-R PPA took additional steps to release its rights in the Abril Leasehold back to the surface owners, including a Quitclaim Deed filed in Sonoma County June 9, 2010. To M-S-R PPA’s knowledge, it retains no ongoing liability for this Project.

B. ARIZONA NUCLEAR POWER PROJECT (ANPP)

The ANPP has been constructed and is currently known as the Palo Verde Nuclear Generating Station. However, when it was in the pre-operation stages, M-S-R PPA held negotiations with multiple owners regarding the potential purchase of an interest in the project. The negotiations that proceeded the farthest were with the Arizona Public Service Company (APS) and led to the development of a process by M-S-R PPA to purchase a 150 MW ownership interest in the project. Due to the environmental concerns associated with nuclear power projects, Modesto (125 MW) and
Redding (25 MW) chose to put advisory ballot measures before their constituents to assess their support for the transaction. Santa Clara elected not to participate in the process. Both advisory ballot measures failed to achieve 50% support. Negotiations were terminated, and M-S-R PPA took no further actions to enter the project.

C. INTERCONNECTION/ECONOMY INTERCHANGE AGREEMENTS

In conjunction with the San Juan Project, M-S-R PPA contacted a number of utilities in the Southwest for Interconnection and Economy Interchange Agreements. These agreements set forth protocols to be used if economy energy was ever bought and sold between the parties. These types of agreements were commonplace at the time but have since been rendered obsolete with the advent of the Western Systems Power Pool (WSPP) and its mechanisms for exchanging energy. Most of the Economy Interchange Agreements have been either terminated or allowed to expire upon their own terms. Those that remain in effect are with PNM and TEP, as there are other portions of those agreements that are used and useful as associated with the San Juan Project.

D. SOUTHWEST TRANSMISSION PROJECT

The Southwest Transmission Project included ownership interests in the Mead-Phoenix and Mead-Adelanto Transmission Projects and transmission service contracts from Los Angeles Department of Water and Power (LADWP) and Southern California Edison Company (SCE) which, when used in conjunction, was used to deliver San Juan generation from the TEP system to the Members in Northern California. More specifically, the Southwest Transmission Project consisted of the following components:

- Between the Mead Substation and Phoenix, M-S-R PPA had the following rights:
  - Component A: An 11.538% interest (221.9 MW transmission capability) in the Westwing-Mead 1923 MW transmission linear 246-mile transmission line from the Westwing Substation in southern Arizona to the Mead Substation near Las Vegas, Nevada (the “Mead-Phoenix Segment.”)
  - Component B: 0% interest in the Mead 500 kV – 230 kV transformer
Component C: An 8.0993% interest (210.6 MW) in the 2600 MW linear 12-mile transmission line from Mead to Marketplace and including a proportionate 50% interest in the Marketplace substation and associated facilities (the “Mead-Marketplace Segment.”)

- A one-mile interconnection between McCullough and Marketplace Substations near Las Vegas, Nevada (the “McCullough Tie-Lines”), which is considered a common bus with Marketplace Substation.
- A 17.5% interest (225.9 MW transmission capability) in a 1291 MW linear 214-mile transmission line from the Marketplace Substation (and including a proportionate 50% interest in the Marketplace substation and associated facilities) near Las Vegas, Nevada to the Adelanto Substation near Los Angeles, California (the “Mead-Adelanto Segment”).
- Arrangements with LADWP for transmission service (225.9 MW transmission capability) from the Adelanto Substation near Los Angeles, California, to the midpoint of the Victorville-Lugo transmission line.
- The Firm Transmission Service Agreement (Rate Schedule No. 339) with SCE for transmission service (150 MW transmission capability) from the midpoint of the Victorville-Lugo transmission line to the Midway Substation in central California (SCE TSA). On January 1, 2014, the Agency perfected a partial termination of the SCE TSA to reduce the contract capability from 150 MW to 98 MW to reflect the more economic use of New Firm Use transmission service to be provided by the California Independent System Operator (CAISO) to Santa Clara in lieu of using this component of the SWTP. This agreement was terminated effective May 1, 2015.
- Transmission service from the Midway Substation (the terminus of the Southwest Transmission Project as described above) to the Members was provided through transmission arrangements between the Transmission Agency of Northern California (TANC) and PG&E (SOTP ETC).

On July 22, 2015, the M-S-R PPA adopted Resolution 2015-03 authorizing a number of actions including the proposed sale of its ownership interests in the Mead-Phoenix and Mead-Adelanto Projects to the Southern California Public Power Authority (SCPPA) for the sum of $60 million. This transaction closed May 25, 2016.
E. PACIFIC NORTHWEST LETTER AGREEMENTS (BONNEVILLE CONTRACT)

During the planning stages of the California-Oregon Transmission Project (COTP), M-S-R PPA conducted an evaluation of available resources in the Pacific Northwest that could utilize the COTP when constructed. As each of the Members had rights on the COTP through their membership in the project developer, the Transmission Agency of Northern California (TANC), it was decided to conduct this investigation jointly. Over a dozen utilities were interviewed and the process led to three letter of intent agreements. The first was with Bonneville Power Administration (Bonneville or BPA) for a 20-year block of surplus energy which would convert to a seasonal exchange once the surplus energy was no longer available. The second was with PacifiCorp and would involve a block of energy supported by PacifiCorp’s portfolio of coal-fired generating plants. The third was with Pacific Northwest Generating Company (PNGC) regarding its fractional interest in the Boardman Coal Plant.

Only the Bonneville letter agreement resulted in a contract. The other two letter agreements ultimately did not result in contracts. The Bonneville Contract was completed and energy deliveries began with the commercial operation of the COTP and was to run through April 30, 2013. After several years, key provisions of the agreement were renegotiated to M-S-R PPA’s benefit. Bonneville subsequently exercised its right to effect a termination of the agreement on five-years notice and deliveries concluded September 30, 2005.

F. DEVERS-PALO VERDE NO. 2 TRANSMISSION PROJECT (DPV-2)

During the development of the Southwest Transmission Project to support deliveries of the San Juan Project, M-S-R PPA was faced with the task of securing transmission across the SCE service territory. SCE was sponsoring the second transmission line between Devers Substation and the Palo Verde Switchyard. SCE would provide the transmission service between Midway Substation and Devers Substation in exchange for M-S-R PPA’s participation in the project planning process. This project was being developed concurrently with the development of the Mead-Phoenix and Mead-Adelanto Transmission Projects. Besides M-S-R PPA, many of the southern California municipal utilities were participating in both transmission paths because it was not clear which, if either, was going to be built. When it was clear Mead-Phoenix and Mead-Adelanto were moving forward, SCE agreed to provide M-S-R PPA with transmission service contract between Midway Substation and the
LADWP transmission system but was still interested in M-S-R PPA’s participation in DPV-2 to complete the path through Mead. M-S-R PPA agreed to assign 60 MW of its transfer rights on the Mead-Adelanto Transmission for a 4-year term, during 1996 to 1999, in exchange for being released from its obligation to participate in DPV-2. M-S-R PPA’s participation in DPV-2 was officially terminated several years later when SCE returned to M-S-R PPA the planning money it had contributed to the project.

G. ADELANTO-LUGO TRANSMISSION PROJECT

In the development of the Mead-Adelanto Transmission Project there was a disagreement over where to terminate the project in California. Certain Southern California municipal utilities participating in the project desired to have the project terminate in the LADWP system as they had transmission service contract rights through LADWP for delivery of generation to their individual systems. Other Southern California municipal utilities desired the project termination to be in the SCE transmission system, as they had contract transmission service rights through SCE for delivery of generation to their individual systems. M-S-R PPA also desired a SCE termination point. The proposed resolution was a termination of the project at Adelanto Switchyard with LADWP providing transmission service contracts between Adelanto and the SCE transmission system.

Once this plan was completed, the City of Anaheim (Anaheim) led the group of utilities desiring transmission service to the SCE transmission system in a study to add additional transmission facilities to replace the transmission service to be provided by LADWP. This effort became known as the Adelanto-Lugo Transmission Project. Environmental studies were completed and preliminary engineering commenced. Anaheim then convinced M-S-R PPA to assume the Project Management role for the project. Shortly after the transition of Project Management was completed, Anaheim announced it was withdrawing from the project. As there was insufficient interest in the project with Anaheim as the largest participant gone, M-S-R PPA chose to close out the contracts and terminate the project and rely on the aforementioned LADWP transmission service between Adelanto and the SCE system.
H. CALIFORNIA-OREGON TRANSMISSION PROJECT AND SOUTH OF TESLA PRINCIPLES

Since the 1960’s when Pacific Gas and Electric Company (PG&E) had exclusive access to the AC portion of the Pacific Northwest-Pacific Southwest 500-KV transmission system from Northern California to the Pacific Northwest (Intertie) only three governmental entities had rights on this system, Western Area Power Administration (Western), California Department of Water Resources (CDWR), and Sacramento Municipal Utility District (SMUD). There had been discussions among other municipal utilities interested in securing access to the Intertie and requests for such access had failed to yield results. In the offices of Resource Management International, Inc. (RMI) on December 22, 1982, key representatives of M-S-R PPA met to discuss their options. During the course of that meeting, a PG&E transmission tower failure near Tracy, California plunged over 5 million people in Northern California into darkness. It was then resolved by the meeting participants that the Members needed to obtain reliable transmission independent of PG&E.

Preliminary studies were undertaken under the working group known as the Northwest Transmission Joint Venture (NTJV). The founders of this working group were the M-S-R PPA Members. Their initial efforts took the project to the point where additional participation shares could be allocated. Modesto suggested its neighboring irrigation district, Turlock Irrigation District, be asked to participate. Santa Clara suggested its joint members in the Northern California Power Agency (NCPA) be asked to participate. Finally, SMUD approached the group and suggested it also be allowed to participate. This group of 15 municipal entities formed a joint powers agency in December 1984 with the name of the Transmission Agency of Northern California (TANC) with the intent of constructing the COTP.

As the COTP project progressed, additional entities including the California Investor-Owned Utilities (IOUs) PG&E, SCE, San Diego Gas and Electric Company (SDG&E) expressed interest in participating in the COTP. Southern California municipal utilities also expressed interest in participation in the COTP and extending the project into Southern California. PG&E successfully argued that additional facilities did not need to be built south of Tesla Substation and that PG&E would grant transmission service to those requesting such service. The SOTP provided 300 MW of transmission service between Tesla Substation and Midway Substation (including 150 MW for M-S-R PPA) until additional upgrades was necessary. In that instance, SOTP Participants could pay for their portion of necessary upgrades.
With a proposed participation of almost half of the COTP capacity, the IOUs applied to the California Public Utilities Commission (CPUC) for Certificates of Public Convenience and Necessity (CPCN) for recovery of their investment in the COTP in rates. The CPUC rejected the applications of PG&E and SCE in the basis of lack of necessity and SDG&E was asked to provide additional documentation. None responded and all three IOUs withdrew from the COTP. In addition, PG&E refused to honor its commitments for SOTP transmission service but TANC successfully challenged PG&E at the Federal Energy Regulatory Commission (FERC) and the SOTP became a FERC approved rate schedule. The TANC Members had agreed to “step-up” their participation percentages in the COTP if, indeed, the CPUC took the action that it did. This step assured there was sufficient support for the project to move forward and TANC energized the COTP in 1993.

As part of the SOTP service, TANC and M-S-R PPA Members had committed to fund the costs of certain transmission system upgrades (Los Banos-Gates.) To cover such expenses, M-S-R PPA included an allocation $4.2 million in its Series E Bonds to cover such expenses. Although PG&E subsequently performed the transmission upgrades, the costs were placed in Rate Base and reimbursements were not requested from either TANC or M-S-R PPA. In compliance with its Bond Indentures, M-S-R PPA used these funds to retire debt later in the 1990s.

I. EAST-SIDE TIE

Another project investigated by M-S-R PPA was a transmission line that would interconnect Tracy Substation and Adelanto Substation via a new line running down the east side of the Central Valley. This project known as the East Side Tie (and also referred to as the Central California Desert Southwest Transmission Project or CCDSW) would, if completed, in conjunction with the COTP, have created a municipal transmission path between Oregon through California to Arizona. This path would have eliminated the need for transmission service from the California IOUs for deliveries of capacity and energy from or between the Pacific Northwest and the Southwest. This project was studied by M-S-R PPA twice during the 1980s. The largest obstacle appeared to be the total cost, potentially $1 billion. Although the project never evolved past the planning stage, the concept resurfaced in the late 2000s when TANC was planning numerous transmission projects around Northern California known as the TANC Transmission Project or TTP. One segment would have directly connected Santa Clara to the municipal utility transmission network. Another segment would
have expanded the transmission system around Modesto and Turlock, which would have reinforced connections between Adelanto Substation and the transmission system in Northern California. Ultimately, support for all segments failed and no elements of the TTP were constructed.

J. **SAN JUAN GENERATING STATION (OPERATING PHASE)**

The operation and maintenance of the San Juan Generating Station by the Public Service Company of New Mexico (PNM) as Operating Agent was governed by the San Juan Project Participation Agreement. The provision of reserve sharing and power exchange services was provided by two surviving Service Schedules (Service Schedules “E” and “D” respectively) to an Interconnection Agreement Between Tucson Electric Power Company and M-S-R Public Power Agency dated September 20, 1982.

On July 22, 2015, M-S-R PPA adopted Resolution 2015-02 approving the execution of the following agreements which allowed the divestiture of the Agency’s ownership interest in the San Juan Generating Station on December 31, 2017 with effective dates as noted:

1. San Juan Project Restructuring Agreement (Effective January 31, 2016),
2. Amended and Restated Mine Reclamation and Trust Funds Agreement (Effective January 31, 2016),
3. San Juan Decommissioning and Trust Funds Agreement (Effective December 31, 2017),
4. Restructuring Amendment Amending and Restating the Amended and Restated San Juan Project Participation Agreement (Effective January 31, 2016), and
5. Exit Date Amendment Amending the Amended and Restated San Juan Project Participation Agreement (Effective December 31, 2017).

On July 19, 2017, M-S-R PPA adopted Resolution 2017-03 approving the execution of the following agreements which administratively completed the divestiture of the Agency’s ownership interest in the San Juan Generating Station on December 31, 2017:

1. Assignment, Assumption, Termination and Release Agreement,
2. New Exit Date Amendment Amending and Restating the Amended and Restated San Juan Project Participation Agreement,
3. Termination Agreement – Capacity Option and Funding Agreement,
4. Amendment Agreement to San Juan Project Early Purchase and Participation Agreement.
The goals of the Agency in the divestiture of the San Juan Project were to relieve the Members from US EPA mandates to install uneconomic Clean Air Act Regional Haze station retrofits, to mitigate rapidly escalating Fuel and O&M costs, and to further comply with requirements of California Law including SB 1368 and AB 32. The benefits of the proposed restructuring of the San Juan Project were estimated to result in about $6 million in immediate project operating cost savings, avoiding about $28 million in station retrofit costs, allowing ongoing power cost savings valued at about $200 million in a Navigant Consulting Inc. (NCI) 2014 study covering a 20-year period, and bounding current and future Agency liabilities. The Agency further caused the preparation of an Independent Consultant’s Report as required under the Agency’s Bond Indentures. In that report, the Independent Consultant found that through the seven-year period beginning in 2015 and continuing through the final retirement of the Agency’s San Juan Project Revenue Bonds in July 2022, the Member’s power supply costs would be reduced by $81 million on a Net Present Value basis and that “it would be in accordance with sound utility practice to pursue a divestiture of the San Juan Unit No. 4 in accordance with the terms of the Restructuring Agreements and that such divestiture would not impair the ability of the Agency to comply with Bond Covenants nor would it hinder the Agency’s ability to make debt service payments as prescribed in its financing documents.”
VI. HISTORIC LEGAL AND REGULATORY ACTIONS

Since its founding, M-S-R PPA has been party to a number of legal and regulatory actions. The following listing is intended to provide an overview of historic proceedings and provide context for past decisions by the Agency which subsequently influenced the development of its current projects, policies, and procedures.

A. TUCSON ELECTRIC POWER COMPANY – BREACH OF CONTRACT

Pursuant to Service Schedule B of the Interconnection Agreement between M-S-R PPA and TEP, M-S-R PPA was afforded access to system energy from the TEP system for use or sale to third parties. Under a formula mechanism, M-S-R PPA paid production cost plus 3 mills/kWh hour to TEP for their assistance in administering M-S-R PPA’s transactions. Upon commencement of the arrangement in 1982, M-S-R PPA secured a sale to SCE that was renewed annually through 1984. In 1985, TEP changed management and chose to contract directly with SCE leaving M-S-R PPA without counterparty. M-S-R PPA executed short-term sales arrangements with El Paso Electric Company and Texas-New Mexico Power Company, but it was obvious that M-S-R PPA had been damaged by TEP. On April 1, 1986, M-S-R PPA filed suit against TEP for Breach of Contract in Federal District Court and on October 31, 1989, M-S-R PPA was awarded a judgment against TEP for $5 million.

B. STOLEN BEARER BONDS

In the early 1980s, Bearer Bonds from two different series were reported to the Agency as being lost or stolen. M-S-R PPA obtained Surety Bonds to protect the Agency and replacement Bearer Bonds were issued. The original bonds were eventually purchased by a third party in Switzerland and under a Swiss doctrine of a good faith purchase were presented for payment. Suit was filed in the Supreme Court of the State of New York by the purported purchasers to perfect their claims. M-S-R PPA tendered defense of the claims to the issuers of the Surety Bonds and no further payments or action by the Agency were required.
C. **SIERRA CLUB/GRAND CANYON TRUST – CLEAN AIR ACT – SAN JUAN**

PNM, as Operating Agent and largest single owner of the San Juan Generating Station, was sued by Sierra Club/Grand Canyon Trust in 2002 over allegations of visibility/particulate violations. PNM subsequently negotiated a settlement (Consent Decree) in 2005 requiring retirement of the electrostatic precipitators used for particulate control on each of the four San Juan units and their replacement with baghouses, the installation of a mercury removal system, and the reduction of allowable limits for certain other emissions. Relying on PNM’s estimate the total cost of the project of approximately $110 Million, the San Juan Owners signed a Memorandum of Understanding to support PNM in its settlement with Sierra Club/Grand Canyon Trust. With this commitment, the project proceeded but ultimately cost in excess of $320 million. M-S-R PPA’s final share of the cost for Unit No. 4 was greater than $24 million. The upgraded environmental systems were completed on Unit No. 4 in 2007. Ongoing environmental monitoring was required and continues in effect by the Remaining San Juan Participants.

D. **SIERRA CLUB GROUND WATER – SAN JUAN**

In December 2009, the San Juan Owners each received a notice of intent to sue under the Resources Conservation and Recovery Act (RCRA) from the Sierra Club alleging violations of ground and surface water contamination standards and improper placement of Coal Combustion Waste (CCW) in the San Juan mine. A settlement was eventually reached which resulted in a $10 Million commitment by the San Juan Owners to construct a slurry wall to capture potential offsite transfer of groundwater water from the plant site and other related projects. The installation of the slurry wall has been delayed due to property rights issues and although approved for construction in 2014, was completed in 2018. Additional projects have been developed up to a cost limit established in the settlement and are the responsibility of the Remaining San Juan Participants.

E. **SOUTHERN CALIFORNIA EDISON TRANSMISSION RATE CASES**

On November 21, 1991, SCE signed Negotiating Principles with M-S-R PPA regarding transmission service from Victorville-Lugo to Midway. These principles were formalized in an Agreement dated May 1, 1995 (FERC Rate Schedule No. 339). This agreement came to be called an Existing

Since the ETC was implemented, SCE has exercised its rights under the contract and applied to FERC to have the rates and charges for transmission service modified. Starting in 2008, SCE filed rate cases before the FERC that had the effect of increasing the costs of the transmission service provided to M-S-R PPA by orders of magnitude. M-S-R PPA vigorously contested these cases before FERC and, in adjudicated settlement processes, achieved and maintained rate-freezes with a transition to rolled-in rates. However, once the rate-freeze period ended on January 1, 2014, the stated rates under SCE’s tariff increased to a level that rendered the transmission service uneconomic.

Each of the M-S-R PPA Members subsequently caused independent studies to be performed and to reach conclusions that alternate means of delivering San Juan Project Capacity and Energy was more economic and efficient than continuing to utilize the SCE TSA. Effective January 1, 2014 the M-S-R PPA Transmission Service was reduced from 150 MW to 98 MW on behalf of Santa Clara; effective January 1, 2015 reduced to 75 MW on behalf of Redding; and effective May 1, 2015 was terminated in its entirety on behalf of MID.

F. **BONNEVILLE POWER ADMINISTRATION POWER SALES AGREEMENT AND OTHER LITIGATION**

On September 30, 1997, Bonneville Power Administration (BPA [pr Bonneville](#)) and M-S-R PPA executed a Firm Power Sales Agreement (BPA Agreement) which guaranteed that BPA would sell M-S-R PPA excess federal power through September 2004, and potentially until April 2013. The agreement required that BPA provide M-S-R PPA with an annual forecast of available excess federal power for the upcoming ten years and that BPA determine whether the anticipated amount of excess federal power would cover M-S-R PPA's energy needs for the sixth year beyond the current year. If Bonneville determined in any two consecutive years that it would have insufficient excess federal power to serve M-S-R PPA’s needs and properly notified M-S-R PPA of this in writing, the Sales Agreement would of its own force terminate five years from the date shown on Bonneville's notice of termination.
In 1999 and 2000 BPA issued annual ten-year forecasts projecting that no excess federal power would be available in 2004 and 2005 and provided the two notices necessary to terminate the BPA Agreement effective September 30, 2005.

M-S-R PPA filed three petitions for review with the Ninth Circuit U.S. Court of Appeals challenging: (1) Bonneville's reliance on factors other than its "then current contracts" for its August 30, 1999 forecast of excess federal power, its determination of insufficient excess federal power to serve M-S-R's needs in 2005, and the timeliness of its October 20, 1999 notice of that determination; (2) Bonneville's reliance on factors other than its "then-current contracts" for its September 28, 2000 “preliminary forecast” of excess federal power, and the timeliness of its September 29, 2000 notice of that power determination; and (3) the timeliness of Bonneville's December 19, 2000 “final” excess federal power forecast. M-S-R PPA contended these “fatal flaws” rendered the 1999 and 2000 determinations of excess power “void and of no force or effect” and required the Court to enjoin the termination of the BPA Agreement.

The Court determined that although M-S-R PPA contended that Bonneville failed to abide by the requirements of the BPA Agreement when forecasting excess federal power, M-S-R PPA actually challenged a decision made pursuant to BPA's statutory authority to forecast excess federal power. The Court further found that Congress implicitly delegated to BPA the authority to develop the necessary procedures to implement the marketing of excess federal power and that it was eminently reasonable for Bonneville to ground its forecasts in the best information available at that time, i.e., predictions of future energy demand derived from its subscription process. The Court found BPA's consideration of these factors was neither arbitrary nor capricious and further found that it saw nothing arbitrary or capricious about BPA accounting for its unconditional obligations before its conditional ones. Finally, the Court determined that M-S-R's Timeliness Claims sounded in contract, and dismissed them for lack of jurisdiction. (M-S-R Public Power Agency v. Bonneville Power Admin. 297 F.3d 833 (9th Cir. 2002))

In 2011 BPA adopted Dispatcher Standing Order-216 (DSO-216) and a subsequent Record of Decision (ROD) regarding Environmental Redispatch. Pacific Northwest parties filed complaints to the Federal Energy Regulatory Commission (FERC). The ROD was subsequently overturned, but not before there were significant curtailments in summer 2011. BPA then filed an Oversupply Management Protocol (OMP) with FERC and unilaterally applied it during the 2012 runoff season.
resulting in similar curtailments. Subsequently, the FERC accepted the oversupply protocol as an interim remedy conditioned upon Bonneville’s filing of a proposed methodology for allocating displacement costs “in a manner that results in comparability in the provision of transmission service for all resources.” BPA filed a request asking the FERC to reconsider its condition that BPA file a cost allocation methodology before the Commission would fully accept the oversupply protocol and its directive to file a new cost allocation methodology within 90 days of the order. The OS-14 rate proceeding, which established rates to recover the costs incurred under BPA’s Oversupply Management Protocol, was concluded on March 27, 2014.

On July 23, 2015, BPA concluded the BP-16 rate proceeding to set power and transmission rates for the FY 2016 to 2017 rate period by issuance of the final Record of Decision. The rate schedules continue to allocate oversupply costs to generators within the BPA Balancing Area Authorities (BAAs) in proportion to their transmission schedules compared to total schedules during the oversupply period. Issues currently being addressed in post-case workshops include: Agency level financial reserves policy, Southern Intertie value issues, secondary revenue projections, debt repayment model, Montana wind development issues, capital investment strategies, and cost containment. The BP-18 rate proceeding was completed and new rates took effect October 1, 2017.

G. CALIFORNIA SENATE BILL 1368

California Senate Bill 1368 (SB 1368 – Statues of 2006) established an Emissions Performance Standard of and prohibited certain investments in non-compliant facilities. Regulations promulgated by the California Energy Commission pursuant (CEC) to SB 1368 (06-OIR-1) restrict investments in baseload generation that does not meet an Emissions Performance Standard of 1,100 pounds of CO₂ per MWh of electricity, with limited exceptions including but not limited to routine maintenance, requirements of pre-existing contractual commitments, system reliability, or threat of significant financial harm. The law and related regulations require ongoing review and determination as to whether investments at the San Juan Project are permitted or are proscribed “covered procurements.” M-S-R PPA reviewed all prospective San Juan Project Capital Budget Items and made findings as to whether or not they constitute routine maintenance, are required by Prudent Utility Practice, or otherwise meet any of the exceptions or exemptions provided in the California Energy Commission’s (CEC) regulations. Capital Budget Items that impermissibly extend the life of the San Juan Project or otherwise fail to meet the requirements of the regulations may not be approved by the Agency.

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Through contractual arrangements with other San Juan owners, M-S-R PPA was relieved from the obligation of paying for Capital Budget Items effective July 1, 2014. Through the Restructuring Agreements, M-S-R PPA was relieved from requirements to vote on Capital Budget Items effective January 31, 2016. Therefore, M-S-R PPA no longer needs to make determinations pursuant to SB 1368 regulations.

On November 14, 2011, National Resources Defense Council (NRDC)/Sierra Club filed a petition with the CEC alleging California publicly owned utilities (POUs) are ignoring or violating the emission performance standards as they may be applicable to investments in coal-fired generating facilities such as the San Juan Project. In response, on January 12, 2012, the CEC issued an Order Instituting Rulemaking (12-OIR-01) to review the emission performance standard. On July 9, 2012, the CEC issued Tentative Conclusions and Requests for Additional Information followed by a Request for Reply Comments on August 31, 2012. As described in these requests, CEC considered amending their regulations to require the filing of additional information by POUs but did not propose any substantive changes in the emission performance standard. On March 19, 2014 the CEC in a Rulemaking concluded that the threshold for reporting capital projects under SB1368 should be set at $2.5 million (or about 0.28 percent of annual capital expenditures for the San Juan Project). The CEC further required that Publicly Owned Utilities (POUs) provide an annual compliance plan with the Energy Commission for each non-EPS compliant facility, including for investments, capital expenditures, contractual changes, sales of interest or other activity; however, this requirement has an exemption for any facilities for which a POU has entered into a binding agreement to divest itself within five years; the exemption to remain for as long as the binding agreement is in place or the divestment has been completed. Given the execution of the Restructuring Agreements, M-S-R PPA believed it had met the requirements for this exemption. With the completion of the divestiture of the San Juan assets, this requirement and associated exemption is now moot.
VII. FINANCING HISTORY

In September 1982, M-S-R PPA purchased from TEP certain system rights and an option to purchase a 28.8 percent interest in San Juan Unit 4 from PNM by May 1995. M-S-R PPA issued a promissory note to TEP for the purchase price with the intent to replace the note with permanent financing. Before the permanent financing structure was completed, M-S-R PPA negotiated an early purchase of the ownership interest in San Juan Unit 4 from PNM effective December 31, 1983.

In June 1983, M-S-R PPA issued its $215,000,000 San Juan Project Bond Anticipation Notes, Series A (Series A Notes) and $232,000,000 San Juan Project Revenue Bonds, Series A (Series A Bonds) for the purpose of financing the portion of San Juan Project costs covering the payments to TEP and PNM. The decision to use the Series A Notes was to take advantage of the much lower short-term interest rates.

In October 1984, M-S-R PPA issued its $220,600,000 San Juan Project Bond Anticipation Notes, Series B (Series B Notes) to provide funds to pay the Series A Notes. The Series B Notes did not mature until 1989, but a California initiative in 1985 would have, if approved by voters, limited municipal entities from securing long term financing. Facing the potential of having no means for meeting its obligations for the Series B Notes, M-S-R PPA issued its $267,245,000 San Juan Project Revenue Bonds, Series B (Series B Bonds) to provide funds to pay the Series B Notes in August 1985. (The California initiative subsequently failed.)

In March 1987, M-S-R PPA issued its $273,760,000 San Juan Project Revenue Bonds, Series C (Series C Bonds) to refund $244,795,000 aggregate principal amount of Series B Bonds.

In January 1990, M-S-R PPA issued its $86,000,000 San Juan Revenue Bonds, Series D (Series D Bonds) to refund $76,675,000 aggregate principle of Series A Bonds.

M-S-R PPA issued its $117,135,000 Series E Bonds in April 1991 to finance its ownership interest in the Southwest Transmission Project. The funds were used to construct a portion of the Mead-Phoenix Transmission Project, a portion of the Mead-Adelanto Transmission Project, and set aside $5 Million for possible improvements on the PG&E Transmission system north of Midway Substation. PG&E improvements were ultimately completed without the need for funds from M-S-R PPA and...
construction costs for the Southwest Transmission Project were less than projected. In February 1997, M-S-R PPA took the available cash ($28.47 Million) and retired certain Series E Bonds.

In 1993, M-S-R PPA issued $108,960,000 San Juan Project Bonds, Series F (Series F Bonds) – April 1993 to refund certain Series A Bonds.

M-S-R PPA has issued refunding bonds to take advantage of improved interest rates over the years. In 1995, M-S-R PPA neared its limit for outstanding bond debt under the original bond indentures and instituted a Subordinate Lien Indenture to complete refundings and to issue variable rate debt not permitted under the original bond indentures. In addition, Internal Revenue Service rules limit the number of refundings as being eligible for tax-exempt status. Therefore, certain refunding debt was issued as taxable debt.


In 1997, M-S-R PPA issued floating rate debt to refund certain Series C Bonds and Series D Bonds:

- $97,515,000 San Juan Project Bonds, Series G (Series G Bonds) – March 1997
- $86,700,000 San Juan Project Bonds, Series H (Series H Bonds) – March 1997
- $65,000,000 San Juan Project Subordinate Lien Revenue Bonds, Series 1997D (Series 1997D Bonds) – March 1997 (Tax-Exempt)
- $65,000,000 San Juan Project Subordinate Lien Revenue Bonds, Series 1997E (Series 1997E Bonds) – March 1997 (Taxable)

In 1998, M-S-R PPA issued debt that was the subject of an interest rate swap with Morgan Guarantee Trust Company of New York to refund certain Series A and Series C Bonds.

- $17,000,000 San Juan Project Subordinate Lien Revenue Bonds, Series 1998G (Series 1998G Bonds) – November 1998 (Taxable)
In 2001, M-S-R PPA issued $64,320,000 San Juan Project Bonds, Series 2001I (Series I Bonds) – September 2001 to refund outstanding Series E transmission project bonds.

In 2003, M-S-R PPA issued $54,435,000 San Juan Project Subordinate Lien Revenue Bonds, Series 2003I (Series 2003I Bonds) – May 2003 floating rate debt that was subject to an interest rate swap agreement from 2002 with Bear Sterns Capital Markets, Inc to refund certain Series F Bonds.


- $17,000,000 San Juan Project Subordinate Lien Revenue Bonds, Series 2008N (Series 2008N Bonds) – July 2008

Also in 2008, interest rate swap agreements for the entire Series 2008M Bonds and Series 2008N Bonds were entered into with Morgan Guaranty Trust Company of New York.

In 2011, M-S-R PPA issued $34,050,000 San Juan Project Subordinate Lien Revenue Bonds, Series 2011O (Series 2011O Bonds) – April 2011 to refund certain Series 2001I Bonds. Also in 2011, M-S-R PPA marketed and reissued the Series 2008M Bonds and Series 2008N Bonds to Wells Fargo Bank, National Association pursuant to a Continuing Covenant Agreement.

In 2013, M-S-R PPA issued $57,485,000 San Juan Project Subordinate Lien Revenue Bonds, Series 2013P (Series 2013P Bonds) – Fall 2013 (Taxable) which were replaced with $55.600 Million, San
Juan Project Subordinate Lien Revenue Bonds Series 2014Q (Series 2014Q Bonds) – Spring 2014 (Tax-exempt) to refund certain Subordinate Lien Revenue Bonds Series 1997D.

In 2016 M-S-R PPA realized $60 Million in cash from the sale of the Southwest Transmission Project. These funds were used to call and defease certain bonds and partially terminate swap arrangements at a total cost of $51.7 million to reduce the remaining debt service payments by an amount of $54.9 million. In addition, certain funds were used to partially fund a decommissioning trust fund, partially fund a mine reclamation trust fund, and to fund a debt service coverage revolving fund.


As of December 31, 2018, M-S-R PPA is scheduled to have the following outstanding debt:

<table>
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<tr>
<th>Issue</th>
<th>Year of Issue</th>
<th>Maturity</th>
<th>Coupon Rates %</th>
<th>Amount of Issue</th>
<th>Principal Outstanding</th>
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<td>San Juan Subordinate Lien Revenue Bonds Series 2018R</td>
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<td>2019-2022</td>
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<td>$98,850,000</td>
<td>$98,850,000</td>
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**ALPHABETICAL LIST OF EXHIBITS:**

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<td><strong>Asset Capitalization Policy</strong> – Resolution No. 2014-06 Adopted August 20, 2014 Regarding Asset Capitalization Policy</td>
<td>22</td>
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<td><strong>Baker Tilly Virchow Krause LLP</strong> – Engagement of Baker Tilly Virchow Krause LLP as independent accountants dated September 25, 2015</td>
<td>13</td>
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<tr>
<td><strong>Big Horn Operating Procedures</strong> – Service Schedule A to the Operating Agreement, Amended and Restated Big Horn Operating Procedures, adopted by the M-S-R PPA Commission November 23, 2012 per Resolution 2012-05</td>
<td>43</td>
</tr>
<tr>
<td><strong>Big Horn II Operating Procedures</strong> – Operating Agreement Service Schedule K – Operating and Accounting Procedures For Big Horn II Wind Energy Project adopted by the M-S-R Commission May 18, 2011 pursuant to Resolution 2011-05</td>
<td>45</td>
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<tr>
<td><strong>CEQA Guidelines</strong> – Resolution No. 95 – 1, Adopted February 22, 1995, Adopting Guidelines For The Implementation of the California Environmental Quality Act</td>
<td>52</td>
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<td><strong>Clean Air Act Allowances</strong> – M-S-R Clean Air Act SO2 Allowance Policy Adopted by M-S-R Commission September 28, 2005</td>
<td>47</td>
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<td><strong>Conflict of Interest Code</strong> – Conflict of Interest Code for M-S-R Public Power Agency effective July 6, 2016</td>
<td>20</td>
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<td><strong>Debt Management</strong> – Resolution No. 2017-01, Adopted May 17, 2017, Regarding Debt Management Policy</td>
<td>34</td>
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<td><strong>Debt Service Coverage</strong> – Resolution No. 2014-07 Adopted September 24, 2014 Regarding Calculation of Debt Service Coverage</td>
<td>18</td>
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<tr>
<td><strong>Debt Service Coverage Revolving Fund</strong> – Resolution No. 2016-02 Adopted July 20, 2016 Regarding Debt Service Coverage Revolving Fund Operating Procedures</td>
<td>19</td>
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<tr>
<td><strong>Duncan, Weinberg, Genzer &amp; Pembroke, PC</strong> – Legal Services Agreement Between the M-S-R Public Power Agency and Duncan, Weinberg &amp; Miller</td>
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<th>Resolution No.</th>
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<td>Election and Duties of Officers</td>
<td>2013 – 01</td>
<td>March 20, 2013</td>
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<td>Filing of Quarterly Treasurer’s Reports and Annual Audits</td>
<td>2015</td>
<td>November 23, 2015</td>
<td>Memorandum and Notice</td>
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<td>Financial Management Committee Bylaws</td>
<td>2013 – 10</td>
<td>October 16, 2013</td>
<td>Amended and Restarted Rules of Procedure for Committee</td>
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<td>Investment Policy Guidelines</td>
<td>2013</td>
<td>(approved by Commission January 24, 2013)</td>
<td>Revised and Revised Guidelines</td>
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<td>Investment Signatories</td>
<td>2012 -03</td>
<td>July 18, 2012</td>
<td>Approved Signatories to Invest M-S-R Public Power Agency Monies in Local Agency Investment Fund and Other Permitted Investments</td>
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<tr>
<td>KBT, LLC – Agreement for Professional Services by and between KBT, LLC and M-S-R Public Power Agency dated September 15, 2010</td>
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<td>L &amp; R Workplan – California and Federal Legislative And Regulatory Representative Workplans 2013</td>
<td>2013</td>
<td>California and Federal Legislative And Regulatory Representative Workplans 2013</td>
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<tr>
<td>Martin Hopper Energy Consulting</td>
<td>Amended and Restated Management Services Agreement by and between M-S-R Public Power Agency and Martin R. Hopper dba Martin Hopper Energy Consulting effective as of, January 1, 2010</td>
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<tr>
<td>Meeting Schedules And Posting Of Agendas</td>
<td>2013 – 05</td>
<td>October 16, 2013</td>
<td>Regarding Meeting Schedules and Procedures for Posting of Agendas for The M-S-R PPA Commission</td>
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<td>Member Cash Call Reserve Account</td>
<td>1999</td>
<td>November 17, 1999</td>
<td>Establishing a Member Cash Call Reserve Account Policy and a Member Cash Call Reserve Account</td>
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<tr>
<td>Montague DeRose – Agreement For Professional Financial Advisor Services by and between M-S-R Public Power Agency, and Montague DeRose And Associates, LLC, effective January 1, 2010, as amended through Amendment No. 2,</td>
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<td>Montgomery &amp; Andrews, PA – Engagement Letter Between Montgomery</td>
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<td>&amp; Andrews, PA and the M-S-R Public Power Agency dated September 10, 2010</td>
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<tr>
<td><strong>Navigant Consulting, Inc.</strong> – Agreement for Professional Services by and</td>
<td>11</td>
</tr>
<tr>
<td>between Resource Management International, Inc, a wholly-owned subsidiary of</td>
<td></td>
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<tr>
<td><strong>Operating Agreement</strong> – Amended and Restated Operating Agreement Between</td>
<td>41</td>
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<tr>
<td>The M-S-R Public Power Agency and the Modesto Irrigation District, The City</td>
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<tr>
<td>of Santa Clara, California, and The City of Redding, California dated</td>
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<tr>
<td>February 1, 1997 with service schedules that may be revised from time to</td>
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<td>time. This agreement superseded the “Principles for the Scheduling and</td>
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<td>Dispatch of the M-S-R Public Power Agency’s San Juan Project Power,” dated</td>
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<td>June 20, 1984.</td>
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<tr>
<td><strong>Orrick, Herrington &amp; Sutcliffe LLP</strong> – Engagement Letter For Bond Counsel</td>
<td>5</td>
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<td>Services Outside a Specific Financing Program Between the M-S-R Public Power</td>
<td></td>
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<tr>
<td>Agency And Orrick, Herrington &amp; Sutcliffe LLP dated as of May 27, 1997</td>
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<td><strong>Payments – Required Form</strong> – M-S-R PPA Director’s administrative directive</td>
<td>26</td>
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<td>dated June 8, 2007</td>
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<td><strong>Payments – Late</strong> – Resolution No. 2018 - 02, Adopted September 19, 2018,</td>
<td>29</td>
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<tr>
<td>Establishing a Policy Regarding Late Payment Policy</td>
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<td><strong>Payments – Third Parties</strong> – Resolution No. 95 - 3, Adopted April 19, 1995</td>
<td>28</td>
</tr>
<tr>
<td>Establishing A Policy For Payments By Third Parties On Behalf Of A Member</td>
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<tr>
<td>To The Agency</td>
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<td><strong>Payments – Timely</strong> – Resolution No. 2009 – 02, Adopted May 20, 2009</td>
<td>31</td>
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<td>Regarding The Timely Payment Of Invoices And Making Certain Delegations Of</td>
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<td>Agency</td>
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<td><strong>PNW Power Sales Agreement</strong> – Second Amended and Restated Pacific Northwest</td>
<td>40</td>
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<td>Project Power Sales Agreement dated May 24, 2005 between the M-S-R Public</td>
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<td>Power Agency and the Modesto Irrigation District, the City of Santa Clara,</td>
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<td>and the City of Redding</td>
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<td><strong>Politico Group</strong> – Agreement For Professional Services By And Between M-</td>
<td>12</td>
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<tr>
<td>S-R Public Power Agency and Politico Group effective as of January 1, 2013</td>
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<td><strong>Porter Simon Professional Corporation</strong> – Agreement for Legal Representation</td>
<td>4</td>
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<td>between Porter Simon Professional Corporation and M-S-R Public Power Agency</td>
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<td>dated as of August 1, 1997</td>
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<td><strong>Procurement Policy</strong> – Resolution No. 2013 – 08, Adopted October 16, 2013</td>
<td>30</td>
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<td>Regarding Procurement Policy</td>
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<td><strong>Privacy Statement – Web Site</strong> – M-S-R Public Power Agency Revised: June</td>
<td>49</td>
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<td><strong>Real Property Acquisition</strong> – Resolution No. 95 – 2, Adopted February 22,</td>
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<td>1995, Adopting Guidelines For The Acquisition Of Real Property</td>
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<td><strong>Reclamation Agreement</strong> – Amended and Restated Mine Reclamation and Trust</td>
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<td>Funds Agreement Among Public Service Company of New Mexico.</td>
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### Records Retention
- Resolution No. 2013-02, Adopted on May 22, 2013, Regard Re: Retention and/or Destruction of Records
- Resolution No. 2013-09, Adopted on October 16, 2013, Regard Re: Reimbursement of Costs of Support Services Provided By Member Agencies.

### Resource Agreements
- Service Schedule D to the Operating Agreement, Resource Agreements, adopted by the M-S-R PPA Technical Committee August 4, 2016
- Service Schedule D to the Operating Agreement dated April 27, 1995
- Service Schedule D to the Operating Agreement dated November 29, 1982
- Service Schedule E Reserve Sharing Agreement dated January 23, 1985

### San Juan – Restructuring Amendment

### Strategic Plan – Annual
- M-S-R Public Power Agency Strategic Plan effective January 1, 2013 (approved by Commission September 12, 2013)
- Revised by and Between Law Offices of Susie Berlin and the M-S-R Public Power Agency dated April 1, 2013

### Technical Committee Bylaws

### Ten-Year Forecast
- San Juan Ten-Year Forecast and Legacy Liability Funding Status Report, noted and filed by M-S-R Commission January 24, 2018

### Terms of Use Agreement – Web Site
- Between User and M-S-R Public Power Agency Revised: July 28, 2010

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**Technical C’ttee Review Draft**

**September 6, 2018**
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<tr>
<td>Tucson/San Juan Project Power Sales Agreement dated November 17, 1982, as amended August 30, 1999, between the M-S-R Public Power Agency and the Modesto Irrigation District, the City of Santa Clara, and the City of Redding</td>
<td>35</td>
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<td>WREGIS REC Accounting – Policy and Procedure 2009-01, WREGIS REC Accounting and Distribution, dated August 31, 2009</td>
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*Technical C’tee Review Draft* - September 6, 2018
Member Notification Regarding M-S-R Generation and/or Transmission Resources

Adopted by Commission - September 28, 2016

July 27

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- These resources include the scheduling of energy from the San Juan Generating Station through TEP to points of delivery in the State of Arizona. Also contained therein are protocols for Daily Preschedules and Real Time Schedules.

36 - B Service Schedule B to the Operating Agreement, San Juan Project Resources, adopted by the M-S-R PPA Technical Committee October 9, 2013.
outlines notification mechanism for the Agency and Members if they are solicited or solicit to make long-term or short-term sales or purchases of M-S-R PPA Generation and/or Transmission Resources.  

provides a Procedure for Accounting for Taxable Use of San Juan Generation to assure Member sales of San Juan energy did not violate the private use limits associated with M-S-R PPA’s use of tax exempt Bonds to finance the San Juan Project.

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36 - E  Service Schedule E to the Operating Agreement, Member Notification Regarding M-S-R Generation And/Or Transmission Resources, revised by the M-S-R Commission January 17, 1997.

36 - F  Operating Agreement Service Schedule F – M-S-R Operating Procedure For Accounting For Taxable Use of San Juan Generation, revised by the M-S-R Commission January 21, 2003
provides for Coal Allocation Procedures among the Members for the sharing of coal costs at the San Juan Generating Station.36·G The purpose of this Service Schedule is to properly allocate costs in case minimum coal take provisions are triggered by M-S-R PPA.

San Juan Subordinate Lien Revenue Bonds Series 2008N  |  2008 | 2020 | Variable | $17,000,000 | $14,685,000
San Juan Subordinate Lien Revenue Bonds Series 2014Q | 2014 | 2018 | 1.20 | $55,600,000 | $21,090,000
Total | | | | $253,965,000 | $160,995,000

Adopted by Commission
- September 28, 2016

July 27

Accounting For Taxable Use – San Juan – Operating Agreement Service Schedule F – M-S-R Operating Procedure For Accounting For Taxable Use of San Juan Generation, revised by the M-S-R Commission January 21, 2003

Coal Allocation Procedures – Operating Agreement Service Schedule G – Coal Allocation Procedures Among The Members, revised by the M-S-R Commission January 17, 1997

Member Notification – Service Schedule E to the Operating Agreement, Member Notification Regarding M-S-R Generation And/Or Transmission Resources, revised by the M-S-R Commission January 17, 1997

Real Property Acquisition – Resolution 95 – 2, Adopted February 22, 1995, Adopting Guidelines For The Acquisition Of Real Property

Reserved – Service Schedule C to the Operating Agreement. Prior version terminated by M-S-R PPA Technical Committee August 4, 2016

Reserved – Operating Agreement Service Schedule H – Prior version
terminated by M-S-R PPA Technical Committee August 4, 2016

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<th>Reserved – Operating Agreement Service Schedule I – Prior version terminated by M-S-R PPA Technical Committee August 4, 2016</th>
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<tr>
<th><strong>San Juan – Project Resources</strong> – Service Schedule B to the Operating Agreement, San Juan Project Resources, adopted by the M-S-R PPA Technical Committee October 9, 2013</th>
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<th><strong>San Juan – Use of Reserve Sharing</strong> – Operating Agreement Service Schedule J – M-S-R Procedures For Member Utilization of Unused Member San Juan Reserve Sharing Capability, revised by the M-S-R Commission September 14, 1998</th>
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M-S-R PUBLIC POWER AGENCY

ORGANIZATION, AUTHORIZATIONS, POLICIES, & PROCEDURES MANUAL

Technical Committee Review Draft September 6, 2018
Resolution 2018-03
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I. INTRODUCTION

The M-S-R Public Power Agency (M-S-R PPA or Agency) is a joint powers agency created in 1980 pursuant to Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California and is governed by a Commission consisting of one representative from each M-S-R PPA Member. Members of M-S-R PPA include the Modesto Irrigation District and the Cities of Redding and Santa Clara, California. The Governing Bodies of the Members appoint M-S-R PPA Commissioners and any Alternates.¹

A. PURPOSE

M-S-R PPA is empowered to acquire, construct, manage, operate, maintain, and finance projects, including but not limited to the purchase, generation, transmission or distribution of energy.

M-S-R PPA’s purpose is to maximize the value of its existing assets for the benefit of the Members and to respond to Member needs where joint action, rather than individual action, is deemed to be in the Members’ best interests. M-S-R PPA is also intended to provide more responsive services to its Members than may be possible from larger or state-wide agencies or associations.

The initial project of M-S-R PPA was to develop a geothermal resource. In 1982, the Joint Exercise of Powers Agreement (JPA) was amended and restated to allow for the development of the San Juan Project (as further described in § IV (A) (a) of this manual) which was an undivided interest in an operating coal unit in New Mexico and supporting utility services from the Tucson Electric Power Company (TEP). In 1990, Amendment Number 1 to the JPA was approved to allow for the development of transmission assets for delivery of capacity and energy from the San Juan Project to California (Southwest Transmission Project or SWTP) beginning in 1995. In 2006, Amendment Number 2 to the JPA extended the term of the JPA indefinitely, but prohibited termination until all Agency obligations are satisfied. In 2016, the ownership interests in the SWTP were sold to the Southern California Public Power Authority (SCPPA) and the energy generating assets of the San Juan Project.

¹ Joint Exercise Of Powers Agreement of the M-S-R Public Power Agency By And Among the Modesto Irrigation District and the City Of Santa Clara and the City Of Redding, dated as of April 29, 1980, Amended and Restated as of November 17, 1982, as amended by Amendment Number 1 to the Amended and Restated Joint Powers Agreement, dated June 26, 1990, and by Amendment 2 to the Amended and Restated Joint Exercise of Powers Agreement, dated January 24, 2006.
Juan Project were sold to the Public Service Company of New Mexico (PNM) in 2017. M-S-R PPA’s remaining obligations related to the San Juan Project include shares of plant decommissioning cost, mine reclamation cost, and potential environmental liabilities (referred to as “Legacy Liabilities” and as further described in § IV (A) (a) of this manual.

B. RESPONSIBILITY

The Agency is a California joint powers agency created pursuant to the California Government Code and is subject to California laws generally applicable to public agencies, including, but not limited to, the Ralph M. Brown Act, Public Records Act, Political Reform Act and other conflict of interest laws. The Agency and its officials must abide by the Conflict of Interest Code adopted by the California Fair Political Practices Commission for the Agency. M-S-R PPA is governed by its Commission. The M-S-R PPA Commission meetings are chaired by its President, a Commissioner who is subject to annual election by the Commission. The M-S-R PPA Commission meets monthly, generally on the third Wednesday following the first Monday of the month, pursuant to a schedule adopted by the Commission prior to the close of the prior year. Minutes of Commission meetings are taken by the Secretary, who is appointed by the Commission. The Commission may or may not choose to elect a Vice-President.

C. MANAGEMENT

M-S-R PPA’s General Manager directs Agency activities and reports directly to the M-S-R PPA Commission. The General Manager oversees the contracts and performance of consultants and advisors, and coordinates the activities of M-S-R PPA’s standing and any Ad Hoc Committees. The current M-S-R PPA standing committees are the Technical Committee, the Financial Management Committee, and the Risk Management Committee.

The office of the General Manager was originally created in 1980 to carry out delegated authorities assigned by the Commission and was first filled by Modesto Irrigation District (Modesto) staff members (Charles S. Viss (1980 – 1987) and Kenneth H. McKinney (1987 – 1996). In 1996 Dennis

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2 Resolution No. 2013 – 01 Adopted March 20, 2013 Regarding Election and Duties of Officers.
W. DeCuir was engaged as Interim General Manager and was directed to prepare a Strategic Plan for the Agency and to recruit an independent General Manager. Subsequent General Managers have been retained by the Commission pursuant to Professional Services Agreements specifying their duties and as codified in Resolution 2013–01 referenced above. The independent General Managers include William C. Walbridge (1997 – 2003), George F. Fraser (2004 – 2006) and Martin R. Hopper (2007 – 2008 as M-S-R Director, a position created by the Commission which temporarily had all the rights, obligations, and authorities of a General Manager and 2008 – Present as General Manager.)

Pursuant to the JPA, the Treasurer and Controller of Modesto are designated to the same positions for the Agency. The Modesto Board of Directors determines the charges made for such services, with concurrence of the Agency, as provided under California Law.

Legal services for the Agency are furnished by independent providers including General Counsel, Bond Counsel, FERC Counsel, California Regulatory Counsel, BPA Counsel and local counsel as required. Incumbent providers include:

- **General Counsel:** In August 1997, M-S-R PPA entered into an agreement with Porter Simon, Professional Corporation to provide independent General Counsel services to the Agency.\(^4\) This agreement may be terminated at-will by the Agency.
- **Bond Counsel:** In May 1997, M-S-R PPA entered into its current agreement with Orrick, Herrington & Sutcliffe, LLP for Bond Counsel services.\(^5\) This agreement may be terminated at-will by the Agency.
- **FERC Counsel:** In January 1986, M-S-R PPA entered into a legal services agreement with Duncan, Weinberg & Miller, PC, now known as Duncan, Weinberg, Genzer & Pembroke, PC, for FERC Counsel services.\(^6\) This agreement may be terminated at-will by the Agency.
- **California Regulatory Counsel:** In April 2013, M-S-R PPA entered into a Legal Services Agreement with Law Offices of Susie Berlin, as successor to McCarthy and Berlin LLP,

\(^4\) Agreement for Legal Representation between Porter Simon Professional Corporation and M-S-R Public Power Agency dated as of August 1, 1997.
\(^5\) Engagement Letter For Bond Counsel Services Outside a Specific Financing Program Between the M-S-R Public Power Agency And Orrick, Herrington & Sutcliffe LLP dated as of May 27, 1997.
\(^6\) Legal Services Agreement Between the M-S-R Public Power Agency and Duncan, Weinberg & Miller, PC dated as of January 17, 1986.
for California regulatory counsel services.\textsuperscript{7} This agreement may be terminated at-will by the Agency.

- **BPA Counsel:** BPA Counsel services are provided by Duncan, Weinberg, Genzer & Pembroke, PC, who also act as FERC Counsel pursuant to their existing Legal Services Agreement as referenced above.

- **New Mexico Counsel:** In September 2010, M-S-R PPA entered into an Engagement Letter with Montgomery & Andrews, PA for New Mexico counsel services.\textsuperscript{8} This agreement may be terminated at-will by the Agency.

Professional consulting, advisory and auditing services are furnished by independent providers including Financial Advisor, General Consultants, California Legislative Advocacy, and Financial Auditor as required. Incumbent providers include:

- **Financial Advisor:** In December 2009, M-S-R PPA entered into an agreement with Montague DeRose and Associates, LLC (Montague DeRose) for Financial Advisor Services. As amended, the term of this agreement is through December 31, 2018 with optional renewals.\textsuperscript{9} In July 2016 this agreement was further amended to add certain disclosures and acknowledgements as provided by law.

- **General Consultant:** In September 2010, M-S-R PPA entered into an agreement with KBT, LLC (KBT) for the purpose of securing General Consulting services.\textsuperscript{10} M-S-R PPA has KBT available to perform specific tasks as assigned by the General Manager regarding generation, transmission, renewable energy, and administrative services. The term of this agreement is open-ended but can be terminated upon 30 days notice.

- **General Consultant:** In July 1999, M-S-R PPA entered into an agreement with Resource Management International, Inc, now known as Navigant Consulting Inc, (NCI

\textsuperscript{7} Legal Services Agreement By and Between Law Offices of Susie Berlin and the M-S-R Public Power Agency dated April 1, 2013.


\textsuperscript{9} Agreement For Professional Financial Advisor Services by and between M-S-R Public Power Agency, and Montague DeRose And Associates, LLC, effective January 1, 2010, as amended through Amendment No. 2.

\textsuperscript{10} Agreement for Professional Services by and between KBT, LLC and M-S-R Public Power Agency dated September 15, 2010.
or Navigant) as amended\(^{11}\), for the purpose of securing General Consulting services. M-S-R PPA has NCI available to perform specific tasks as assigned by the General Manager regarding generation, transmission, renewable energy, and administrative services. The term of this agreement is open-ended but can be terminated upon 30 days notice.

- **California Legislative Advocacy:** In January 2013, M-S-R entered into a Professional Services Agreement with Politico Group for California legislative advocacy services as directed by the General Manager regarding generation, transmission, and renewable energy issues\(^{12}\). The term of this agreement has been extended through December 31, 2018, and may be terminated upon 30 days notice.

- **Financial Auditor:** Effective November 18, 2015, M-S-R PPA entered into an agreement with Baker Tilly Virchow Krause KBT, LLP (BT-VK) for the purpose of securing Financial Audit services\(^{13}\). M-S-R PPA has BT-VK available to prepare financial statements and to perform annual audits under the review of the Commission. This agreement provides for a fixed price for audit services through the completion of the audit for the Agency’s fiscal year ending December 31, 2019.

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\(^{12}\) Agreement For Professional Services By And Between M-S-R Public Power Agency and Politico Group effective as of January 1, 2013.

\(^{13}\) Engagement of Baker Tilly Virchow Krause LLP as independent accountants dated September 25, 2015.
II. ORGANIZATION AND AUTHORITIES

The JPA organizes the Agency as described in the previous section to provide for governance, management, and conduct of M-S-R PPA’s activities. All financial decisions are made by the Commission, except for those specifically delegated to the General Manager. Policy direction is provided by the M-S-R PPA Commission. Policy is further provided in the Annual Strategic Plan, which is updated by the Technical Committee and adopted by the Commission on an annual basis.

A. M-S-R PPA PRESIDENT

The M-S-R PPA President, as specified in Resolution 2013 – 01, Election and Duties of Officers, shall preside at all meetings of the Commission when he or she is present, cause an agenda to be prepared and distributed by the General Manager in advance of the meeting, which shall list each item of business or correspondence to come before the meeting insofar as is known, may act as an official spokesman of the Agency at the direction of the Commission, make all appointments except as otherwise provided, execute contracts on behalf of the Agency when authorized by the Commission and perform such other duties as are assigned to him or her from time to time by the Commission.

B. M-S-R PPA VICE PRESIDENT

The Vice-President performs the duties of the President in the absence or disability of the President.

C. GENERAL MANAGER

The Commission has assigned the General Manager certain duties to carry out on behalf of the Agency as enumerated in Resolution 2013 - 01 and specified in his Professional Services Agreement. The General Manager chairs certain standing committees. The General Manager maintains the authority to act within Commission direction and policy contained within the Annual Strategic Plan in carrying out his duties. The General Manager has also been designated as a Special Agent of the Agency.

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14 Amended and Restated Management Services Agreement by and between M-S-R Public Power Agency and Martin R. Hopper dba Martin Hopper Energy Consulting effective as of, January 1, 2010, as amended.
D. SECRETARY

The Secretary keeps the minutes and files of the Agency, authenticates its acts and keeps a correct roll of each member of the Commission, and his or her alternate. The Assistant Secretary shall perform the clerical duties of the office, and shall act as Secretary in the absence or disability of the Secretary. The Commission appointed the General Counsel as Secretary and the General Manager or his or her designee as Assistant Secretary. Their respective duties are also set forth in Resolution 2013-01.

E. M-S-R PPA COMMITTEES

There are presently three active standing M-S-R PPA Committees:

- Technical Committee
- Financial Management Committee
- Risk Management Committee

In 2011, the Commission instructed the General Manager to abolish previous committees created by the General Manager and established the Technical and Financial Management Committees. These Committees are subject to and will comply with the Ralph M. Brown Act. The Commission adopted Rules of Procedures for both Committees that are structured similarly.15 16 Neither Committee shall have any officers. The General Manager shall preside over and cause minutes to be prepared of each meeting. The General Manager will coordinate the efforts of Members providing services to the Committees and shall oversee the support provided by General Counsel and any contractors also providing services to the Agency.

The duties of the Technical Committee include, but are not limited to: 1) annually recommend a five-year strategic plan for the Agency; 2) review proposals for the acquisition or divesture of resources; 3) recommend modifications of arrangements supporting the management or operation of resources; 4) review individual Member issues with the Agency brought to the attention of the Technical Committee for discussion and potential resolution; 5) review and develop strategies for complying with regulatory issues and other externalities; 6) review the technical aspects of legal action, whether

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current, pending, or under consideration; and 7) address other issues that may be specifically assigned by the Commission.

The duties of the Financial Management Committee include, but are not limited to: 1) review and consideration of candidates for Financial Advisor; 2) review and consideration of candidates for Bond Counsel; 3) coordinate with the Financial Advisor and Bond Counsel to the extent necessary; 4) review of proposals for the financial products that may be solicited or unsolicited that may be beneficial to the financial management of the Agency; 5) recommend modifications of arrangements supporting the financial management of assets; 6) implement the Risk Management Policy and communicate risk management issues to the Commission together with the General Manager, oversee the Risk Management Committee together with the General Manager, and oversee the activities of the Coordinator Services Coordinator together with the General Manager; 7) review individual Member issues with the Agency brought to the attention of the Financial Management Committee for discussion and potential resolution; 8) review and develop strategies for complying with financial management issues and other externalities; 9) review the financial aspects of legal action, whether current, pending, or under consideration; and 10) address other issues that may be specifically assigned by the Commission. These duties are reiterated in the Agency’s Debt Management Policy adopted May 17, 2017 as referenced in Section III (H).

The Risk Management Committee was established by the Commission with the adoption of the Energy Risk Management Policy and Risk Management Committee Guidelines. This Committee is subject to and will comply with the Ralph M. Brown Act. The duties of the Risk Management Committee include, but are not limited to: 1) establish the processes and frequency for measuring, monitoring, and reporting the business risks that are within the scope of the Risk Management Policy, 2) approve all methodologies used in risk measurement, 3) monitor the Coordinator Services Contractor (whose duties and authorities are described in Section IV (A) of this Policy Manual) compliance with the Risk Management Guidelines, 4) present reports to the General Manager and Financial Management Committee detailing risk management activity, 5) perform an annual review of the Risk Management Committee Guidelines to maintain procedures and limits appropriate with the business activities of the Agency, 6) establish Risk Management Committee meeting procedures, 7) meet no less frequently than annually, 8) review transaction and risk reports.

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F. **FISCAL AUTHORIZATION**

The M-S-R PPA Commission approval of the annual budget and strategic plan for a fiscal year is the authorization for the conduct of all activities included in the annual budget. Pursuant to Section 2.2 of the Joint Exercise of Powers Agreement of the M-S-R Public Power Agency, the Members pay for the costs associated with the operation of the Agency and are entitled to all rights and property of the Agency in the following portions: Modesto 50%; Santa Clara 35%; and Redding 15%. Project Agreements or unanimously adopted resolutions may provide for differing allocations of costs. Typically, all work for the Agency is routine in nature. If additional outside assistance is required of legal counsel or consultants or can be provided by Member staff, particularly if such work is outside the annual budget limits, the General Manager will consult with the appropriate standing committee to assess support for a Task Order to complete such work and will seek authorization from the Commission if the level of effort is deemed by the General Manager to be of significant magnitude to warrant a budget modification or augmentation.

Work elements are defined in the annual strategic plan that informs the approved budget. Most activities are described, known ahead of time, and are repetitive (e.g. preparation for and support of the meetings of M-S-R PPA Committees and the Commission). Thus, no additional authorization is required to perform such activities.

The Agency has also covenanted to collect sufficient funds to meet all its obligations and to meet the debt service coverage requirements in its Bond Indentures and the annual budget must be so set by the M-S-R PPA Commission. Procedures for the calculation of debt service coverage have been reviewed by Bond Counsel and adopted by the Commission. In 2016 the Agency created a Debt Service Coverage Revolving Fund to assure maintenance of debt service coverage through the remaining life of San Juan Project Bonds.

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G. CONFLICT OF INTEREST POLICY

The Political Reform Act (Government Code Section 81000, et seq.) requires state and local government agencies to adopt and promulgate conflict of interest codes. The M-S-R PPA Conflict of Interest Code was most recently updated in 2016 and was approved by the California Fair Political Practices Commission effective July 6, 2016.\(^{20}\)

III. TREASURER/CONTROLLER FUNCTIONS, BUDGET DEVELOPMENT, THE INVOICE APPROVAL PROCESS, REIMBURSEMENT AND INVESTMENT POLICIES.

This section of the manual outlines various actions and activities undertaken by PPA’s Treasurer/Controller. Also discussed herein are authorities related to the annual budget and strategic plan development processes, as well as invoice approval controls used by Controller staff and Agency expense policies.

A. TREASURER AND CONTROLLER

The positions of Treasurer and Controller are designated by the JPA as those persons responsible for the financial management of the Agency, as well as all other property the Agency may own or control. The Treasurer and Controller of the Modesto Irrigation District serve as Treasurer and Controller for the Agency. The Treasurer and Controller, and Assistant Treasurer(s) and Assistant Controller(s) remain until a future designation by the Modesto Irrigation District.

The Treasurer and Controller are responsible for the payment of Commission and/or General Manager-approved expenditures and payments in accordance with the Agency’s Invoice Approval Procedure described below. The Treasurer and Controller are also authorized to withdraw moneys from the Agency’s funds and accounts.\textsuperscript{21} The Treasurer and Controller cause the preparation of the Agency’s accounts and records in accordance with the latest accounting rules promulgated by the Government Accounting Standards Board (GASB) for recording financial transactions by government agencies. In the absence of GASB accounting rules, the Agency is required to follow Financial Accounting Standards Board (FASB) accounting rules to record accounting transactions. An Asset Capitalization Policy has been adopted to provide guidance to the Controller in making determinations as to whether certain expenditures should be charged to utility plant or to expense.\textsuperscript{22}

Pursuant to Government Code Section 6505(e) and the directives of the General Manager, the Treasurer causes the preparation of monthly Treasurer’s Reports for presentation to the Commission.

\textsuperscript{21} Resolution No. 2012-03 Adopted July 18, 2012 Approving Signatories Authorized to Invest M-S-R Public Power Agency Monies in the Local Agency Investment Fund and Other Permitted Investments.

\textsuperscript{22} Resolution No. 2014-06 Adopted August 20, 2014 Regarding Asset Capitalization Policy.
at each of its regular meetings\textsuperscript{23}. Pursuant to Government Code Sections 6505(b) and 26909(a)(2) and Section 17.2 of the M-S-R PPA Joint Power Agreement, the Controller shall cause the annual audits of the accounts and records of the Agency to be prepared and filed with the Bond Trustee, the State Controller and the Stanislaus County Auditor.

\textbf{B. WORKING CAPITAL AND MEMBER PAYMENTS}

To allow the Agency to invoice the Members monthly for actual generation and variable costs incurred in the prior month and not utilize estimated invoices billed in advance of expenditures, the Agency maintains a nominal 60-day working capital reserve in its Operating Fund.\textsuperscript{24} The Agency also has created a Member Cash Call Reserve Account (MCCRA) whereby funds may be accumulated at the direction of the Commission for unexpected operation and maintenance expenses, repair costs, capital improvements, replacements, or betterments related to M-S-R Projects, and to reduce debt or make debt service payments.\textsuperscript{25} The Agency’s fixed costs, including Debt Service payments are invoiced monthly at one-twelfth of the total amounts adopted in the Annual Budget and trued-up after the close of the fiscal year. Working capital requirements are reviewed on an annual basis as part of the preparation of the Annual Budget. Member payments are made by wire transfer or electronic equivalent pursuant to a policy previously implemented for M-S-R PPA on the basis of administrative efficiency.\textsuperscript{26} In 2016, the Commission adopted a policy designating various uses and transfers of reserves and working capital related to the payment of existing and potential San Juan Project Legacy Liabilities.\textsuperscript{27} The Commission also has adopted a policy specifying the procedures for payments made by a third party on behalf of a Member\textsuperscript{28} and a policy harmonizing the late payment provisions of the Tucson/San Juan Project Power Sales Agreement and the Pacific Northwest Project Power Sales Agreement.\textsuperscript{29}

\textsuperscript{23} Memorandum Dated November 23, 2015 Regarding Filing of Quarterly Treasurer’s Reports and Annual Audits
\textsuperscript{24} Resolution No. 2013-07, Adopted October 16, 2013, Regarding Working Capital Policy.
\textsuperscript{25} Resolution No. 99-01, Adopted November 17, 1999 Establishing a Member Cash Call Reserve Account Policy and a Member Cash Call Reserve Account.
\textsuperscript{26} M-S-R PPA Director’s administrative directive dated June 8, 2007.
\textsuperscript{27} Resolution No. 2016-04, Adopted November 16, 2016, Regarding Use and Transfers of Reserves and Working Capital.
\textsuperscript{28} Resolution No. 95-3 Adopted April 19, 1995 Establishing A Policy For Payments By Third Parties On Behalf Of A Member To The Agency.
\textsuperscript{29} Resolution No. 2018-02, Adopted September 19, 2018, Regarding Late Payment Policy.
C. M-S-R PPA ANNUAL BUDGETS

The fiscal year for both M-S-R PPA and Modesto budgets are January 1 through December 31. However, the fiscal year for both the Cities of Santa Clara and Redding budgets are July 1 through June 30. To meet the needs of all Members, two-year rolling budgets for the Agency are prepared annually. The second year budget is to assist Members with planning and is non-binding. As discussed in Section II, the M-S-R PPA Annual Budget is the authorization for the conduct of all Agency activities.

D. PROCUREMENT POLICY

Although the Agency does not typically engage in public works or procure goods on behalf of its Members, as specified in Resolution 2013–08\(^{30}\) it is the policy of the Agency to make competitive procurements and retain highly qualified professional service providers in the best interests of its Members.

E. INVOICE APPROVAL PROCESS

As specified in Resolution 2009–02,\(^ {31}\) all invoices, bills, demands, and claims upon the Agency are paid by the Treasurer on the recommendation of the General Manager or President or their respective designees and on the review of the Controller or his respective designees. At each regular meeting of the Commission of the M-S-R PPA, the Treasurer makes a report of all invoices, bills, demands, and claims paid since the prior regular meeting of the Commission.

F. REIMBURSEMENT POLICIES

As specified in Resolution 2013–09,\(^ {32}\) M-S-R PPA adopted a policy by which the Agency reimburses its Members for actual costs incurred when they provide support services to the Agency at the direction of the General Manager.

\(^{30}\) Resolution No. 2013–08, Adopted October 16, 2013, Regarding Procurement Policy.
\(^{31}\) Resolution No. 2009–02, Adopted May 20, 2009, Regarding The Timely Payment Of Invoices And Making Certain Delegations Of Agency
\(^{32}\) Resolution No. 2013–09, Adopted on October 16, 2013, Regarding Reimbursement of Costs of Support Services Provided By Member Agencies.
G. INVESTMENT POLICIES

M-S-R PPA maintains an Investment Policy pertaining to the funds of the Agency in conformance with Title 5, Division 2, Part 1, Chapter 4 of the California Government Code, commencing with Section 53600, which is annually reviewed and adopted by motion of the Commission.\(^{33}\)

H. DEBT MANAGEMENT POLICY

On May 17, 2017, the M-S-R PPA Commission established a Debt Management Policy\(^{34}\) in compliance with Government Code Section 8855(i). The purpose of this policy is to:

- Maintain a sound financial position.
- Ensure flexibility to respond to changes in future service priorities, revenue levels, and operating expenses.
- Protect credit-worthiness.
- Ensure that all debt is structured in order to protect both current and future wholesale customers and ratepayers of M-S-R PPA’s Members.
- Ensure that the debt is consistent with M-S-R PPA’s planning goals and objectives, capital improvement program and/or budget, as applicable.

Due to the issuance of the San Juan Project Revenue Bonds Series 2018R on June 12, 2018, the Agency is required to issue an annual debt transparency report pursuant to Government Code Section 8855(k) commencing on or before January 31, 2019.

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\(^{33}\) Investment Policy Guidelines of the M-S-R Public Power Agency 2018 (approved by Commission January 24, 2018.)

\(^{34}\) Resolution No. 2017-01, Adopted May 17, 2017, Regarding Debt Management Policy.
IV. OTHER M-S-R PPA PROJECTS, POLICIES & PROCEDURES

A. M-S-R PPA PROJECTS AND RELATED OPERATING PROCEDURES

a. SAN JUAN PROJECT:

The San Juan Project originally included a 28.8% Ownership Interest (approximately 146 MW) in Unit 4 of the San Juan Generating Station (SJGS) and related services provided by TEP. The Members’ rights and obligations pertaining to the San Juan Project are specified in the Tucson/San Juan Project Power Sales Agreement.\(^\text{35}\) Pursuant to the San Juan Project Restructuring Agreement\(^\text{36}\) M-S-R PPA divested this Ownership Interest effective December 31, 2017 and no longer receives electric energy or capacity from the San Juan Generating Station. M-S-R PPA’s remaining obligations related to the San Juan Project are described as “Legacy Liabilities” and in general are governed by the Restructuring Agreements. Particular obligations related to plant decommissioning expense are further addressed in the Decommissioning Agreement.\(^\text{37}\) Particular obligations related to mine reclamation expense are further addressed in the Reclamation Agreement\(^\text{38}\). Particular obligations related to potential environmental liabilities are addressed in the Restructuring

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\(^{35}\) Tucson/San Juan Project Power Sales Agreement dated November 17, 1982, as amended August 30, 1999, between the M-S-R Public Power Agency and the Modesto Irrigation District, the City of Santa Clara, and the City of Redding.


Agreements. For a history of the operating phase of the San Juan Phase see Section V. (J) Past Projects, San Juan Generating Station (Operating Phase.)

The oversight committees established pursuant to these agreements and representatives assigned by the Agency are shown in the Organization Chart on page 9. An annual forecast of Agency expenditures for the San Juan Project is provided in the San Juan Ten-Year Forecast and Legacy Liability Funding Status Report which is prepared by the Technical Committee and reviewed by the Commission.39

b. PACIFIC NORTHWEST PROJECT

The Pacific Northwest Project currently consists of power sales agreements with subsidiaries of Avangrid Renewables, Inc. (Avangrid) for energy (249.5 MW installed capacity) and renewable energy credits (RECs) from the Big Horn I and Big Horn II Wind Energy Projects located near Bickelton, Washington as delivered to the Members at the California-Oregon Border. The Members rights and obligations pertaining to the Pacific Northwest Project are specified in the Pacific Northwest Project Power Sales Agreement.40

c. OPERATING AGREEMENT AND M-S-R COORDINATOR

The Amended and Restated Operating Agreement41 (Operating Agreement) details how M-S-R PPA will perform the power scheduling, accounting, marketing, coordination and dispatching functions associated with M-S-R PPA resources on behalf of the Members and the Members’ responsibilities to M-S-R PPA for the purposes of the foundational agreements for San Juan Project (including the Southwest Transmission Project) and Pacific Northwest Project. Management of the Service Schedules to the Operating Procedures is conducted by Member representatives pursuant to Section

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39 San Juan Ten-Year Forecast and Legacy Liability Funding Status Report, noted and filed by the M-S-R Commission January 24, 2018.
40 Second Amended and Restated Pacific Northwest Project Power Sales Agreement dated May 24, 2005 between the M-S-R Public Power Agency and the Modesto Irrigation District, the City of Santa Clara, and the City of Redding.
41 Amended and Restated Operating Agreement Between The M-S-R Public Power Agency and the Modesto Irrigation District, The City of Santa Clara, California, and The City of Redding, California dated February 1, 1997 with service schedules that may be revised from time to time. This agreement superseded the “Principles for the Scheduling and Dispatch of the M-S-R Public Power Agency’s San Juan Project Power,” dated June 20, 1984.
25 of the Operating Agreement, such representatives constituting the M-S-R PPA Technical Committee.

The Operating Agreement creates the position of M-S-R Coordinator, the functions of which were initially performed by Modesto. As the necessary functions of Coordinator expanded, the Members decided to formalize the duties through a services contract. After a competitive bid process, Modesto was awarded the initial contract and has served as Coordinator continuously ever since. The Coordinator is authorized to enter into transactions on behalf of M-S-R PPA, if requested by a Member for that Member’s account, or to unilaterally enter into transactions on behalf of M-S-R PPA, in case a Member fails to meet its obligations.

Specific Service Schedules to the Operating Agreement apply to each of the Projects (or special aspects thereof) and are modified as necessary to accommodate the needs of the projects. Several of these Service Schedules became unnecessary with the divestiture of the San Juan assets as was the case with some Service Schedules associated with the SWTP.

i. Operating Agreement Service Schedule A – Big Horn Wind Energy Project.

Service Schedule A applies to the amended and restated accounting procedures for the Big Horn Energy Wind Project. Big Horn is a 199.5 MW facility comprised of 133 1.5 MW wind machines with the output shared between the Members 12.5%/53.5%/35%. M-S-R PPA pays for two services: 1) the production of energy at the site, and 2) the shaping and firm delivery of energy to the California-Oregon Border. Because energy scheduling is performed in whole megawatts, Appendix A was developed to allocated energy based upon the actual deliveries to M-S-R PPA made by Avangrid. As this project was developed in two phases with different pricing structures, Appendix B develops the hybrid pricing algorithm for the sharing of energy costs. Appendix D provides the timing associated with the receipt and payment of monthly energy invoices. Appendix F provides the timing associated with the receipt and payment of the monthly

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43 Amended and Restated Service Schedule A to the Operating Agreement, Big Horn Operating Procedures, adopted by the M-S-R PPA Commission November 18, 2006.
firming and shaping invoice.

ii. Operating Agreement Service Schedule B – Reserved.

   Service Schedule B was terminated March 8, 2018.

iii. Operating Agreement Service Schedule C – Reserved.

   Service Schedule C was terminated August 4, 2016.


   Service Schedule D listed various economy energy agreements held by M-S-R PPA with utilities in the Southwest. Currently, only the WSPP agreement remains.

v. Operating Agreement Service Schedule E – Reserved.

   Service Schedule E was terminated March 8, 2018.

vi. Operating Agreement Service Schedule F – Reserved.

   Service Schedule F was terminated March 8, 2018.


   Service Schedule G was terminated March 8, 2018.

viii. Operating Agreement Service Schedule H – Reserved.

   Service Schedule H was terminated August 4, 2016.

ix. Operating Agreement Service Schedule I – Reserved.

   Service Schedule I was terminated August 4, 2016.

x. Operating Agreement Service Schedule J – Reserved.

   Service Schedule J was terminated March 8, 2018.

xi. Operating Agreement Service Schedule K – Operating and Accounting Procedures For Big Horn II Wind Energy Project.

   Service Schedule K provides operating and accounting procedures for the Big Horn II

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44 Service Schedule D to the Operating Agreement, Resource Agreements, adopted by the M-S-R PPA Technical Committee March 8, 2018.
Wind Project. Big Horn II is a 50 MW facility comprised of 25 - 2.0 MW wind machines with the output shared between the Members 65%/35%/0%. M-S-R PPA pays for two services: 1) the production of energy at the site, and 2) the redelivery of fixed and variable energy to the California-Oregon Border. Because energy scheduling is performed in whole megawatts, Appendix A was developed to allocated energy based upon the actual deliveries to M-S-R PPA made by Avangrid. Appendix B develops the pricing algorithm for the sharing of energy costs. Appendix C shows a computation of Member Pricing. Appendix D provides the timing associated with the receipt and payment of monthly firm energy invoices. Appendix E provides the timing associated with the receipt and payment of monthly variable energy invoices. Appendix F provides the timing associated with the receipt and payment of the monthly firming and shaping invoice.

B. ENVIRONMENTAL COMMODITIES

a. RENEWABLE ENERGY CREDITS (WREGIS RECs)

In addition to the wind energy received from the Avangrid subsidiaries operating the Big Horn and Big Horn II Wind Projects, M-S-R PPA also receives title to all associated environmental commodities including Renewable Energy Credits (RECs). One MW of eligible renewable energy created translates into one REC. RECs are used by the Members, among other purposes, to meet their Renewable Portfolio Standard (RPS) requirements pursuant to California Law. M-S-R PPA receives the RECs from Avangrid, M-S-R PPA then allocates these RECs to the Members in proportion to the energy produced from the wind projects. RECs are accounted for and tracked in the Western Renewable Energy Generation Information System (WREGIS) and retired according to the requirements of the California Air Resources Board and California Energy Commission. M-S-R PPA has created a special Policy and Procedure No. 2009-01 to formalize the accounting and distribution of WREGIS RECs.46

45 Operating Agreement Service Schedule K – Operating and Accounting Procedures For Big Horn II Wind Energy Project adopted by the M-S-R Commission May 18, 2011 pursuant to Resolution 2011-05.
b. **CLEAN AIR ACT ALLOWANCES**

Consistent with the Clean Air Act of 1990, the U.S. Environmental Protection Agency (EPA) enacted a requirement that SO₂ emitting plants be limited in their emissions. In addition, for each emitting source, the owner or operator needed to specify a Designated Representative (DR) to fulfill reporting requirements and be liable for violations. PNM as San Juan Generating Station Operating Agent provided the DR and Alternative Designated Representative (ADR) pursuant to an agreement.

As part of the Clean Air Act program, the San Juan Generating Station was awarded with an annual base number of SO₂ allowances that, pursuant to formula, represent an average operating year. With the construction and operation of the Limestone-Forced Oxidation (LSFO) Project, SJGS greatly reduced its emissions of SO₂, leaving a growing balance of unretried allowances that could be sold on open market. Pursuant to a Policy adopted by motion of the M-S-R PPA Commission September 28, 2005, M-S-R PPA sold a limited quantity of these allowances until the market for SO₂ allowances virtually collapsed. Allowances remaining after the divestiture of the Agency’s operating interest in SJGS are in the process of being transferred to the Members for their future use.

C. **M-S-R PPA LEGISLATIVE PROGRAM**

The primary goal of M-S-R PPA’s Legislative and Regulatory Program is to preserve and enhance the value of M-S-R PPA assets. These assets included the San Juan Project, the Southwest Transmission Project and include the Big Horn Wind Energy Projects. M-S-R PPA only takes positions on those bills and regulatory matters directly affecting M-S-R PPA resources or duties to its Members. M-S-R PPA may also, by request of the Members, take positions on bills of common interest to the entire M-S-R PPA membership. Legislative and Regulatory Workplans, for both State and Federal levels, set forth the Agency’s issues and objectives for the current year and are updated as needed.

D. **WEBSITE ACCESS, PUBLIC RECORDS REQUEST, PHOTOCOPY POLICY, AND POSTING OF PUBLIC DOCUMENTS**

M-S-R PPA maintains a website at www.msrpower.org. Its purpose is to provide basic information

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48 California and Federal Legislative And Regulatory Representative Workplans 2018.
on the Agency and its projects, provide contact information, and to post notices and information as required by the California Government Code and Agency Policy. By motions of the Commission, M-S-R PPA has adopted a Privacy Statement\textsuperscript{49} and Terms of Use Agreement\textsuperscript{50} applicable to users of the website.

Through adoption of this Policy and Procedure Manual, it is the policy of M-S-R PPA to comply with all requests for public records, as required by the California Public Records Act, in a reasonable and expeditious timeframe. For regular photocopies, M-S-R PPA will charge a rate of $0.15 per page. For scanning and digitizing a document in PDF format, M-S-R PPA will charge a rate of $0.10 per page. Existing PDF format documents responsive to a public records request, if provided electronically, will be made available at no charge to the requestor. If copies can be made at lesser cost by an outside service provider, M-S-R PPA will only charge actual fees of such service provider for duplication. These fees were determined based upon review of actual costs for paper, office equipment, and maintenance of said equipment.

M-S-R PPA posts agendas and notices of public meetings at \url{http://msrpower.org/Documents.aspx} as required in the California Government Code and the previously referenced Resolution 2013–04 Regarding Meeting Schedules And Procedures For Posting Of Agendas For The M-S-R PPA Commission. M-S-R PPA may also post documents relevant to the conduct of the Agency’s business which are not mandated by the Government Code on its website, including, but not limited to SB 272 Compliance, the Annual Budget, the Annual Financial Reports, M-S-R PPA Commission meeting minutes, and various M-S-R PPA committee meeting minutes.

\section*{E. Cyber Security Policy}

M-S-R PPA does not have any facilities designated as Critical Energy Infrastructure (CEI) and hence does not have a formal cyber security policy. As a matter of course, ordinary and prudent precautions are taken to maintain the security of the Agency’s email and website access. The M-S-R Coordinator maintains separate responsibility to maintain appropriate cyber security measures related to any CEI under its supervision and is subject to review and audit by WECC pursuant to the applicable NERC

\textsuperscript{49} M-S-R Public Power Agency Privacy Statement Revised: July 28, 2010.
\textsuperscript{50} Terms of Use Agreement Between User and M-S-R Public Power Agency Revised: July 28, 2010.
Reliability Standards and the WECC Regional Reliability Standards.

F. DOCUMENT RETENTION POLICY

As specified in Resolution 2013 – 02,51 M-S-R PPA adopted a document retention policy which sets forth administrative practices related to the retention, distribution, and disposition of public documents in accordance with the California Public Records Act.

G. ADOPTION OF CEQA GUIDELINES

As specified in Resolution 95 – 1,52 the Agency has adopted the model State CEQA Guidelines prescribed by the Secretary of the Resources Agency in Title 14 of the California Code of Regulations, commencing at Section 15000, and as they may be subsequently amended.

H. ADOPTION OF GUIDELINES FOR THE ACQUISITION OF REAL PROPERTY

As specified in Resolution 95–2,53 the Agency has adopted the model State Relocation Assistance and Real Property Acquisition Guidelines specified in Title 25 of the California Code of Regulations, commencing at Section 6000, and as they may be subsequently amended and the Federal Guidelines, Title 49 of the Code of Federal Regulations, Part 24, and as they may be subsequently amended.

I. M-S-R PPA ANNUAL STRATEGIC PLAN

Each year the Agency prepares a Strategic Plan for consideration by the Commission at its September meeting54 and to provide input for the consideration and adoption of the M-S-R PPA Annual Budget in November of each year. The Strategic Plan is prepared by the General Manager pursuant to Sections 1 (c) and (e) of his Management Services Agreement.

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51 Resolution 2013–02, Adopted on May 22, 2013, Regarding Retention and/or Destruction of Records.
54 M-S-R Public Power Agency Strategic Plan effective January 1, 2019 (approved by Commission September 19, 2018.)
J. REVIEW OF POLICIES AND PROCEDURES MANUAL

In 2013, the Commission directed the General Manager to review the Agency’s policies and procedures and to coordinate with the Technical Committee in reviewing the authorities and responsibilities of the Agency. This document is intended to meet the Commission’s directive. Commencing in 2014, in even-numbered years, the General Manager reviews the manual and recommends updates or amendments for consideration by the Commission at its September meeting.
V. PAST PROJECTS

Since its founding, M-S-R PPA has participated in a number of projects which were subsequently terminated or did not reach fruition. In addition, M-S-R PPA acquired ownership interests in generating and transmission assets which have been either divested or retired. The following listing is intended to provide an overview of historic activities and provide context for past decisions by the Agency that subsequently influenced the development of its current projects, policies, and procedures.

A. GEOTHERMAL DEVELOPMENT

As its first project, M-S-R PPA bid, and was awarded in 1980, a lease running from January 1, 1981 through December 31, 1985, to develop geothermal resources on the Abril Leasehold in Sonoma County in the “Geysers Known Geothermal Resource Area” (KGRA) in the Coastal Range of mountains in Northern California. M-S-R PPA contracted with a drilling company and explored for geothermal steam. This effort did not yield sufficient steam for commercial use and the project was eventually abandoned. During the drilling effort, certain wastes were accumulated and deposited in a common repository with similar wastes from other projects by other developers. Due to the nature of the waste, there was an ongoing liability for disposal site remediation. Though negotiation, M-S-R PPA contracted with Pacific Gas and Electric Company (PG&E), the largest contributor of waste to the site, and paid for a release of liability for the waste deposited on behalf of M-S-R PPA. Further, M-S-R PPA took additional steps to release its rights in the Abril Leasehold back to the surface owners, including a Quitclaim Deed filed in Sonoma County June 9, 2010. To M-S-R PPA’s knowledge, it retains no ongoing liability for this Project.

B. ARIZONA NUCLEAR POWER PROJECT (ANPP)

The ANPP has been constructed and is currently known as the Palo Verde Nuclear Generating Station. However, when it was in the pre-operation stages, M-S-R PPA held negotiations with multiple owners regarding the potential purchase of an interest in the project. The negotiations that proceeded the farthest were with the Arizona Public Service Company (APS) and led to the development of a process by M-S-R PPA to purchase a 150 MW ownership interest in the project. Due to the environmental concerns associated with nuclear power projects, Modesto (125 MW) and
Redding (25 MW) chose to put advisory ballot measures before their constituents to assess their support for the transaction. Santa Clara elected not to participate in the process. Both advisory ballot measures failed to achieve 50% support. Negotiations were terminated, and M-S-R PPA took no further actions to enter the project.

C. INTERCONNECTION/ECONOMY INTERCHANGE AGREEMENTS

In conjunction with the San Juan Project, M-S-R PPA contacted a number of utilities in the Southwest for Interconnection and Economy Interchange Agreements. These agreements set forth protocols to be used if economy energy was ever bought and sold between the parties. These types of agreements were commonplace at the time but have since been rendered obsolete with the advent of the Western Systems Power Pool (WSPP) and its mechanisms for exchanging energy. Most of the Economy Interchange Agreements have been either terminated or allowed to expire upon their own terms. Those that remain in effect are with PNM and TEP, as there are other portions of those agreements that are used and useful as associated with the San Juan Project.

D. SOUTHWEST TRANSMISSION PROJECT

The Southwest Transmission Project included ownership interests in the Mead-Phoenix and Mead-Adelanto Transmission Projects and transmission service contracts from Los Angeles Department of Water and Power (LADWP) and Southern California Edison Company (SCE) which, when used in conjunction, was used to deliver San Juan generation from the TEP system to the Members in Northern California. More specifically, the Southwest Transmission Project consisted of the following components:

- Between the Mead Substation and Phoenix, M-S-R PPA had the following rights:
  - Component A: An 11.538% interest (221.9 MW transmission capability) in the Westwing-Mead 1923 MW transmission linear 246-mile transmission line from the Westwing Substation in southern Arizona to the Mead Substation near Las Vegas, Nevada (the “Mead-Phoenix Segment.”)
  - Component B: 0% interest in the Mead 500 kV – 230 kV transformer
Component C: An 8.0993% interest (210.6 MW) in the 2600 MW linear 12-mile transmission line from Mead to Marketplace and including a proportionate 50% interest in the Marketplace substation and associated facilities (the “Mead-Marketplace Segment.”)

- A one-mile interconnection between McCullough and Marketplace Substations near Las Vegas, Nevada (the “McCullough Tie-Lines”), which is considered a common bus with Marketplace Substation.
- A 17.5% interest (225.9 MW transmission capability) in a 1291 MW linear 214-mile transmission line from the Marketplace Substation (and including a proportionate 50% interest in the Marketplace substation and associated facilities) near Las Vegas, Nevada to the Adelanto Substation near Los Angeles, California (the “Mead-Adelanto Segment”).
- Arrangements with LADWP for transmission service (225.9 MW transmission capability) from the Adelanto Substation near Los Angeles, California, to the midpoint of the Victorville-Lugo transmission line.
- The Firm Transmission Service Agreement (Rate Schedule No. 339) with SCE for transmission service (150 MW transmission capability) from the midpoint of the Victorville-Lugo transmission line to the Midway Substation in central California (SCE TSA). On January 1, 2014, the Agency perfected a partial termination of the SCE TSA to reduce the contract capability from 150 MW to 98 MW to reflect the more economic use of New Firm Use transmission service to be provided by the California Independent System Operator (CAISO) to Santa Clara in lieu of using this component of the SWTP. This agreement was terminated effective May 1, 2015.
- Transmission service from the Midway Substation (the terminus of the Southwest Transmission Project as described above) to the Members was provided through transmission arrangements between the Transmission Agency of Northern California (TANC) and PG&E (SOTP ETC).

On July 22, 2015, the M-S-R PPA adopted Resolution 2015-03 authorizing a number of actions including the proposed sale of its ownership interests in the Mead-Phoenix and Mead-Adelanto Projects to the Southern California Public Power Authority (SCPPA) for the sum of $60 million. This transaction closed May 25, 2016.
E. PACIFIC NORTHWEST LETTER AGREEMENTS (BONNEVILLE CONTRACT)

During the planning stages of the California-Oregon Transmission Project (COTP), M-S-R PPA conducted an evaluation of available resources in the Pacific Northwest that could utilize the COTP when constructed. As each of the Members had rights on the COTP through their membership in the project developer, the Transmission Agency of Northern California (TANC), it was decided to conduct this investigation jointly. Over a dozen utilities were interviewed and the process led to three letter of intent agreements. The first was with Bonneville Power Administration (Bonneville or BPA) for a 20-year block of surplus energy which would convert to a seasonal exchange once the surplus energy was no longer available. The second was with PacifiCorp and would involve a block of energy supported by PacifiCorp’s portfolio of coal-fired generating plants. The third was with Pacific Northwest Generating Company (PNGC) regarding its fractional interest in the Boardman Coal Plant.

Only the Bonneville letter agreement resulted in a contract. The other two letter agreements ultimately did not result in contracts. The Bonneville Contract was completed and energy deliveries began with the commercial operation of the COTP and was to run through April 30, 2013. After several years, key provisions of the agreement were renegotiated to M-S-R PPA’s benefit. Bonneville subsequently exercised its right to effect a termination of the agreement on five-years notice and deliveries concluded September 30, 2005.

F. DEVERS-PALO VERDE NO. 2 TRANSMISSION PROJECT (DPV-2)

During the development of the Southwest Transmission Project to support deliveries of the San Juan Project, M-S-R PPA was faced with the task of securing transmission across the SCE service territory. SCE was sponsoring the second transmission line between Devers Substation and the Palo Verde Switchyard. SCE would provide the transmission service between Midway Substation and Devers Substation in exchange for M-S-R PPA’s participation in the project planning process. This project was being developed concurrently with the development of the Mead-Phoenix and Mead-Adelanto Transmission Projects. Besides M-S-R PPA, many of the southern California municipal utilities were participating in both transmission paths because it was not clear which, if either, was going to be built. When it was clear Mead-Phoenix and Mead-Adelanto were moving forward, SCE agreed to provide M-S-R PPA with transmission service contract between Midway Substation and the
LADWP transmission system but was still interested in M-S-R PPA’s participation in DPV-2 to complete the path through Mead. M-S-R PPA agreed to assign 60 MW of its transfer rights on the Mead-Adelanto Transmission for a 4-year term, during 1996 to 1999, in exchange for being released from its obligation to participate in DPV-2. M-S-R PPA’s participation in DPV-2 was officially terminated several years later when SCE returned to M-S-R PPA the planning money it had contributed to the project.

G. ADELANTO-LUGO TRANSMISSION PROJECT

In the development of the Mead-Adelanto Transmission Project there was a disagreement over where to terminate the project in California. Certain Southern California municipal utilities participating in the project desired to have the project terminate in the LADWP system as they had transmission service contract rights through LADWP for delivery of generation to their individual systems. Other Southern California municipal utilities desired the project termination to be in the SCE transmission system, as they had contract transmission service rights through SCE for delivery of generation to their individual systems. M-S-R PPA also desired a SCE termination point. The proposed resolution was a termination of the project at Adelanto Switchyard with LADWP providing transmission service contracts between Adelanto and the SCE transmission system.

Once this plan was completed, the City of Anaheim (Anaheim) led the group of utilities desiring transmission service to the SCE transmission system in a study to add additional transmission facilities to replace the transmission service to be provided by LADWP. This effort became known as the Adelanto-Lugo Transmission Project. Environmental studies were completed and preliminary engineering commenced. Anaheim then convinced M-S-R PPA to assume the Project Management role for the project. Shortly after the transition of Project Management was completed, Anaheim announced it was withdrawing from the project. As there was insufficient interest in the project with Anaheim as the largest participant gone, M-S-R PPA chose to close out the contracts and terminate the project and rely on the aforementioned LADWP transmission service between Adelanto and the SCE system.
H. CALIFORNIA-OREGON TRANSMISSION PROJECT AND SOUTH OF TESLA PRINCIPLES

Since the 1960’s when Pacific Gas and Electric Company (PG&E) had exclusive access to the AC portion of the Pacific Northwest-Pacific Southwest 500-KV transmission system from Northern California to the Pacific Northwest (Intertie) only three governmental entities had rights on this system, Western Area Power Administration (Western), California Department of Water Resources (CDWR), and Sacramento Municipal Utility District (SMUD). There had been discussions among other municipal utilities interested in securing access to the Intertie and requests for such access had failed to yield results. In the offices of Resource Management International, Inc. (RMI) on December 22, 1982, key representatives of M-S-R PPA met to discuss their options. During the course of that meeting, a PG&E transmission tower failure near Tracy, California plunged over 5 million people in Northern California into darkness. It was then resolved by the meeting participants that the Members needed to obtain reliable transmission independent of PG&E.

Preliminary studies were undertaken under the working group known as the Northwest Transmission Joint Venture (NTJV). The founders of this working group were the M-S-R PPA Members. Their initial efforts took the project to the point where additional participation shares could be allocated. Modesto suggested its neighboring irrigation district, Turlock Irrigation District, be asked to participate. Santa Clara suggested its joint members in the Northern California Power Agency (NCPA) be asked to participate. Finally, SMUD approached the group and suggested it also be allowed to participate. This group of 15 municipal entities formed a joint powers agency in December 1984 with the name of the Transmission Agency of Northern California (TANC) with the intent of constructing the COTP.

As the COTP project progressed, additional entities including the California Investor-Owned Utilities (IOUs) PG&E, SCE, San Diego Gas and Electric Company (SDG&E) expressed interest in participating in the COTP. Southern California municipal utilities also expressed interest in participation in the COTP and extending the project into Southern California. PG&E successfully argued that additional facilities did not need to be built south of Tesla Substation and that PG&E would grant transmission service to those requesting such service. The SOTP provided 300 MW of transmission service between Tesla Substation and Midway Substation (including 150 MW for M-S-R PPA) until additional upgrades was necessary. In that instance, SOTP Participants could pay for their portion of necessary upgrades.
With a proposed participation of almost half of the COTP capacity, the IOUs applied to the California Public Utilities Commission (CPUC) for Certificates of Public Convenience and Necessity (CPCN) for recovery of their investment in the COTP in rates. The CPUC rejected the applications of PG&E and SCE in the basis of lack of necessity and SDG&E was asked to provide additional documentation. None responded and all three IOUs withdrew from the COTP. In addition, PG&E refused to honor its commitments for SOTP transmission service but TANC successfully challenged PG&E at the Federal Energy Regulatory Commission (FERC) and the SOTP became a FERC approved rate schedule. The TANC Members had agreed to “step-up” their participation percentages in the COTP if, indeed, the CPUC took the action that it did. This step assured there was sufficient support for the project to move forward and TANC energized the COTP in 1993.

As part of the SOTP service, TANC and M-S-R PPA Members had committed to fund the costs of certain transmission system upgrades (Los Banos-Gates.) To cover such expenses, M-S-R PPA included an allocation $4.2 million in its Series E Bonds to cover such expenses. Although PG&E subsequently performed the transmission upgrades, the costs were placed in Rate Base and reimbursements were not requested from either TANC or M-S-R PPA. In compliance with its Bond Indentures, M-S-R PPA used these funds to retire debt later in the 1990s.

I. EAST-SIDE TIE

Another project investigated by M-S-R PPA was a transmission line that would interconnect Tracy Substation and Adelanto Substation via a new line running down the east side of the Central Valley. This project known as the East Side Tie (and also referred to as the Central California Desert Southwest Transmission Project or CCDSW) would, if completed, in conjunction with the COTP, have created a municipal transmission path between Oregon through California to Arizona. This path would have eliminated the need for transmission service from the California IOUs for deliveries of capacity and energy from or between the Pacific Northwest and the Southwest. This project was studied by M-S-R PPA twice during the 1980s. The largest obstacle appeared to be the total cost, potentially $1 billion. Although the project never evolved past the planning stage, the concept resurfaced in the late 2000s when TANC was planning numerous transmission projects around Northern California known as the TANC Transmission Project or TTP. One segment would have directly connected Santa Clara to the municipal utility transmission network. Another segment would
have expanded the transmission system around Modesto and Turlock, which would have reinforced connections between Adelanto Substation and the transmission system in Northern California. Ultimately, support for all segments failed and no elements of the TTP were constructed.

J. SAN JUAN GENERATING STATION (OPERATING PHASE)

The operation and maintenance of the San Juan Generating Station by the Public Service Company of New Mexico (PNM) as Operating Agent was governed by the San Juan Project Participation Agreement. The provision of reserve sharing and power exchange services was provided by two surviving Service Schedules (Service Schedules “E” and “D” respectively) to an Interconnection Agreement Between Tucson Electric Power Company and M-S-R Public Power Agency dated September 20, 1982.

On July 22, 2015, M-S-R PPA adopted Resolution 2015-02 approving the execution of the following agreements which allowed the divestiture of the Agency’s ownership interest in the San Juan Generating Station on December 31, 2017 with effective dates as noted:

1. San Juan Project Restructuring Agreement (Effective January 31, 2016),
2. Amended and Restated Mine Reclamation and Trust Funds Agreement (Effective January 31, 2016),
3. San Juan Decommissioning and Trust Funds Agreement (Effective December 31, 2017),
4. Restructuring Amendment Amending and Restating the Amended and Restated San Juan Project Participation Agreement (Effective January 31, 2016), and
5. Exit Date Amendment Amending the Amended and Restated San Juan Project Participation Agreement (Effective December 31, 2017).

On July 19, 2017, M-S-R PPA adopted Resolution 2017-03 approving the execution of the following agreements which administratively completed the divestiture of the Agency’s ownership interest in the San Juan Generating Station on December 31, 2017:

1. Assignment, Assumption, Termination and Release Agreement,
2. New Exit Date Amendment Amending and Restating the Amended and Restated San Juan Project Participation Agreement,
3. Termination Agreement – Capacity Option and Funding Agreement,
4. Amendment Agreement to San Juan Project Early Purchase and Participation Agreement.
The goals of the Agency in the divestiture of the San Juan Project were to relieve the Members from US EPA mandates to install uneconomic Clean Air Act Regional Haze station retrofits, to mitigate rapidly escalating Fuel and O&M costs, and to further comply with requirements of California Law including SB 1368 and AB 32. The benefits of the proposed restructuring of the San Juan Project were estimated to result in about $6 million in immediate project operating cost savings, avoiding about $28 million in station retrofit costs, allowing ongoing power cost savings valued at about $200 million in a Navigant Consulting Inc. (NCI) 2014 study covering a 20-year period, and bounding current and future Agency liabilities. The Agency further caused the preparation of an Independent Consultant’s Report as required under the Agency’s Bond Indentures. In that report, the Independent Consultant found that through the seven-year period beginning in 2015 and continuing through the final retirement of the Agency’s San Juan Project Revenue Bonds in July 2022, the Member’s power supply costs would be reduced by $81 million on a Net Present Value basis and that “it would be in accordance with sound utility practice to pursue a divestiture of the San Juan Unit No. 4 in accordance with the terms of the Restructuring Agreements and that such divestiture would not impair the ability of the Agency to comply with Bond Covenants nor would it hinder the Agency’s ability to make debt service payments as prescribed in its financing documents.”
VI. HISTORIC LEGAL AND REGULATORY ACTIONS

Since its founding, M-S-R PPA has been party to a number of legal and regulatory actions. The following listing is intended to provide an overview of historic proceedings and provide context for past decisions by the Agency which subsequently influenced the development of its current projects, policies, and procedures.

A. TUCSON ELECTRIC POWER COMPANY – BREACH OF CONTRACT

Pursuant to Service Schedule B of the Interconnection Agreement between M-S-R PPA and TEP, M-S-R PPA was afforded access to system energy from the TEP system for use or sale to third parties. Under a formula mechanism, M-S-R PPA paid production cost plus 3 mills/kWh hour to TEP for their assistance in administering M-S-R PPA’s transactions. Upon commencement of the arrangement in 1982, M-S-R PPA secured a sale to SCE that was renewed annually through 1984. In 1985, TEP changed management and chose to contract directly with SCE leaving M-S-R PPA without counterparty. M-S-R PPA executed short-term sales arrangements with El Paso Electric Company and Texas-New Mexico Power Company, but it was obvious that M-S-R PPA had been damaged by TEP. On April 1, 1986, M-S-R PPA filed suit against TEP for Breach of Contract in Federal District Court and on October 31, 1989, M-S-R PPA was awarded a judgment against TEP for $5 million.

B. STOLEN BEARER BONDS

In the early 1980s, Bearer Bonds from two different series were reported to the Agency as being lost or stolen. M-S-R PPA obtained Surety Bonds to protect the Agency and replacement Bearer Bonds were issued. The original bonds were eventually purchased by a third party in Switzerland and under a Swiss doctrine of a good faith purchase were presented for payment. Suit was filed in the Supreme Court of the State of New York by the purported purchasers to perfect their claims. M-S-R PPA tendered defense of the claims to the issuers of the Surety Bonds and no further payments or action by the Agency were required.
C. **SIERRA CLUB/GRAND CANYON TRUST – CLEAN AIR ACT – SAN JUAN**

PNM, as Operating Agent and largest single owner of the San Juan Generating Station, was sued by Sierra Club/Grand Canyon Trust in 2002 over allegations of visibility/particulate violations. PNM subsequently negotiated a settlement (Consent Decree) in 2005 requiring retirement of the electrostatic precipitators used for particulate control on each of the four San Juan units and their replacement with baghouses, the installation of a mercury removal system, and the reduction of allowable limits for certain other emissions. Relying on PNM’s estimate the total cost of the project of approximately $110 Million, the San Juan Owners signed a Memorandum of Understanding to support PNM in its settlement with Sierra Club/Grand Canyon Trust. With this commitment, the project proceeded but ultimately cost in excess of $320 million. M-S-R PPA’s final share of the cost for Unit No. 4 was greater than $24 million. The upgraded environmental systems were completed on Unit No. 4 in 2007. Ongoing environmental monitoring was required and continues in effect by the Remaining San Juan Participants.

D. **SIERRA CLUB GROUND WATER – SAN JUAN**

In December 2009, the San Juan Owners each received a notice of intent to sue under the Resources Conservation and Recovery Act (RCRA) from the Sierra Club alleging violations of ground and surface water contamination standards and improper placement of Coal Combustion Waste (CCW) in the San Juan mine. A settlement was eventually reached which resulted in a $10 Million commitment by the San Juan Owners to construct a slurry wall to capture potential offsite transfer of groundwater water from the plant site and other related projects. The installation of the slurry wall has been delayed due to property rights issues and although approved for construction in 2014, was completed in 2018. Additional projects have been developed up to a cost limit established in the settlement and are the responsibility of the Remaining San Juan Participants.

E. **SOUTHERN CALIFORNIA EDISON TRANSMISSION RATE CASES**

On November 21, 1991, SCE signed Negotiating Principles with M-S-R PPA regarding transmission service from Victorville-Lugo to Midway. These principles were formalized in an Agreement dated May 1, 1995 (FERC Rate Schedule No. 339). This agreement came to be called an Existing

Since the ETC was implemented, SCE has exercised its rights under the contract and applied to FERC to have the rates and charges for transmission service modified. Starting in 2008, SCE filed rate cases before the FERC that had the effect of increasing the costs of the transmission service provided to M-S-R PPA by orders of magnitude. M-S-R PPA vigorously contested these cases before FERC and, in adjudicated settlement processes, achieved and maintained rate-freezes with a transition to rolled-in rates. However, once the rate-freeze period ended on January 1, 2014, the stated rates under SCE’s tariff increased to a level that rendered the transmission service uneconomic.

Each of the M-S-R PPA Members subsequently caused independent studies to be performed and to reach conclusions that alternate means of delivering San Juan Project Capacity and Energy was more economic and efficient than continuing to utilize the SCE TSA. Effective January 1, 2014 the M-S-R PPA Transmission Service was reduced from 150 MW to 98 MW on behalf of Santa Clara; effective January 1, 2015 reduced to 75 MW on behalf of Redding; and effective May 1, 2015 was terminated in its entirety on behalf of MID.

F. **Bonneville Power Administration Power Sales Agreement and Other Litigation**

On September 30, 1997, Bonneville Power Administration (BPA pr Bonneville) and M-S-R PPA executed a Firm Power Sales Agreement (BPA Agreement) which guaranteed that BPA would sell M-S-R PPA excess federal power through September 2004, and potentially until April 2013. The agreement required that BPA provide M-S-R PPA with an annual forecast of available excess federal power for the upcoming ten years and that BPA determine whether the anticipated amount of excess federal power would cover M-S-R PPA's energy needs for the sixth year beyond the current year. If Bonneville determined in any two consecutive years that it would have insufficient excess federal power to serve M-S-R PPA's needs and properly notified M-S-R PPA of this in writing, the Sales Agreement would of its own force terminate five years from the date shown on Bonneville's notice of termination.
In 1999 and 2000 BPA issued annual ten-year forecasts projecting that no excess federal power would be available in 2004 and 2005 and provided the two notices necessary to terminate the BPA Agreement effective September 30, 2005.

M-S-R PPA filed three petitions for review with the Ninth Circuit U.S. Court of Appeals challenging:
(1) Bonneville's reliance on factors other than its “then current contracts” for its August 30, 1999 forecast of excess federal power, its determination of insufficient excess federal power to serve M-S-R's needs in 2005, and the timeliness of its October 20, 1999 notice of that determination; (2) Bonneville's reliance on factors other than its "then-current contracts" for its September 28, 2000 “preliminary forecast” of excess federal power, and the timeliness of its September 29, 2000 notice of that power determination; and (3) the timeliness of Bonneville's December 19, 2000 “final” excess federal power forecast. M-S-R PPA contended these “fatal flaws” rendered the 1999 and 2000 determinations of excess power “void and of no force or effect” and required the Court to enjoin the termination of the BPA Agreement.

The Court determined that although M-S-R PPA contended that Bonneville failed to abide by the requirements of the BPA Agreement when forecasting excess federal power, M-S-R PPA actually challenged a decision made pursuant to BPA's statutory authority to forecast excess federal power. The Court further found that Congress implicitly delegated to BPA the authority to develop the necessary procedures to implement the marketing of excess federal power and that it was eminently reasonable for Bonneville to ground its forecasts in the best information available at that time, i.e., predictions of future energy demand derived from its subscription process. The Court found BPA's consideration of these factors was neither arbitrary nor capricious and further found that it saw nothing arbitrary or capricious about BPA accounting for its unconditional obligations before its conditional ones. Finally, the Court determined that M-S-R's Timeliness Claims sounded in contract, and dismissed them for lack of jurisdiction. (M-S-R Public Power Agency v. Bonneville Power Admin. 297 F.3d 833 (9th Cir. 2002))

In 2011 BPA adopted Dispatcher Standing Order-216 (DSO-216) and a subsequent Record of Decision (ROD) regarding Environmental Redispatch. Pacific Northwest parties filed complaints to the Federal Energy Regulatory Commission (FERC). The ROD was subsequently overturned, but not before there were significant curtailments in summer 2011. BPA then filed an Oversupply Management Protocol (OMP) with FERC and unilaterally applied it during the 2012 runoff season
resulting in similar curtailments. Subsequently, the FERC accepted the oversupply protocol as an interim remedy conditioned upon Bonneville’s filing of a proposed methodology for allocating displacement costs “in a manner that results in comparability in the provision of transmission service for all resources.” BPA filed a request asking the FERC to reconsider its condition that BPA file a cost allocation methodology before the Commission would fully accept the oversupply protocol and its directive to file a new cost allocation methodology within 90 days of the order. The OS-14 rate proceeding, which established rates to recover the costs incurred under BPA’s Oversupply Management Protocol, was concluded on March 27, 2014.

On July 23, 2015, BPA concluded the BP-16 rate proceeding to set power and transmission rates for the FY 2016 to 2017 rate period by issuance of the final Record of Decision. The rate schedules continue to allocate oversupply costs to generators within the BPA Balancing Area Authorities (BAAs) in proportion to their transmission schedules compared to total schedules during the oversupply period. Issues currently being addressed in post-case workshops include: Agency level financial reserves policy, Southern Intertie value issues, secondary revenue projections, debt repayment model, Montana wind development issues, capital investment strategies, and cost containment. The BP-18 rate proceeding was completed and new rates took effect October 1, 2017.

G. CALIFORNIA SENATE BILL 1368

California Senate Bill 1368 (SB 1368 – Statutes of 2006) established an Emissions Performance Standard of and prohibited certain investments in non-compliant facilities. Regulations promulgated by the California Energy Commission pursuant (CEC) to SB 1368 (06-OIR-1) restrict investments in baseload generation that does not meet an Emissions Performance Standard of 1,100 pounds of CO₂ per MWh of electricity, with limited exceptions including but not limited to routine maintenance, requirements of pre-existing contractual commitments, system reliability, or threat of significant financial harm. The law and related regulations require ongoing review and determination as to whether investments at the San Juan Project are permitted or are proscribed “covered procurements.” M-S-R PPA reviewed all prospective San Juan Project Capital Budget Items and made findings as to whether or not they constitute routine maintenance, are required by Prudent Utility Practice, or otherwise meet any of the exceptions or exemptions provided in the California Energy Commission’s (CEC) regulations. Capital Budget Items that impermissibly extend the life of the San Juan Project or otherwise fail to meet the requirements of the regulations may not be approved by the Agency.
Through contractual arrangements with other San Juan owners, M-S-R PPA was relieved from the obligation of paying for Capital Budget Items effective July 1, 2014. Through the Restructuring Agreements, M-S-R PPA was relieved from requirements to vote on Capital Budget Items effective January 31, 2016. Therefore, M-S-R PPA no longer needs to make determinations pursuant to SB 1368 regulations.

On November 14, 2011, National Resources Defense Council (NRDC)/Sierra Club filed a petition with the CEC alleging California publicly owned utilities (POUs) are ignoring or violating the emission performance standards as they may be applicable to investments in coal-fired generating facilities such as the San Juan Project. In response, on January 12, 2012, the CEC issued an Order Instituting Rulemaking (12-OIR-01) to review the emission performance standard. On July 9, 2012, the CEC issued Tentative Conclusions and Requests for Additional Information followed by a Request for Reply Comments on August 31, 2012. As described in these requests, CEC considered amending their regulations to require the filing of additional information by POUs but did not propose any substantive changes in the emission performance standard. On March 19, 2014 the CEC in a Rulemaking concluded that the threshold for reporting capital projects under SB1368 should be set at $2.5 million (or about 0.28 percent of annual capital expenditures for the San Juan Project). The CEC further required that Publicly Owned Utilities (POUs) provide an annual compliance plan with the Energy Commission for each non-EPS compliant facility, including for investments, capital expenditures, contractual changes, sales of interest or other activity; however, this requirement has an exemption for any facilities for which a POU has entered into a binding agreement to divest itself within five years; the exemption to remain for as long as the binding agreement is in place or the divestment has been completed. Given the execution of the Restructuring Agreements, M-S-R PPA believed it had met the requirements for this exemption. With the completion of the divestiture of the San Juan assets, this requirement and associated exemption is now moot.
VII. FINANCING HISTORY

In September 1982, M-S-R PPA purchased from TEP certain system rights and an option to purchase a 28.8 percent interest in San Juan Unit 4 from PNM by May 1995. M-S-R PPA issued a promissory note to TEP for the purchase price with the intent to replace the note with permanent financing. Before the permanent financing structure was completed, M-S-R PPA negotiated an early purchase of the ownership interest in San Juan Unit 4 from PNM effective December 31, 1983.

In June 1983, M-S-R PPA issued its $215,000,000 San Juan Project Bond Anticipation Notes, Series A (Series A Notes) and $232,000,000 San Juan Project Revenue Bonds, Series A (Series A Bonds) for the purpose of financing the portion of San Juan Project costs covering the payments to TEP and PNM. The decision to use the Series A Notes was to take advantage of the much lower short-term interest rates.

In October 1984, M-S-R PPA issued its $220,600,000 San Juan Project Bond Anticipation Notes, Series B (Series B Notes) to provide funds to pay the Series A Notes. The Series B Notes did not mature until 1989, but a California initiative in 1985 would have, if approved by voters, limited municipal entities from securing long term financing. Facing the potential of having no means for meeting its obligations for the Series B Notes, M-S-R PPA issued its $267,245,000 San Juan Project Revenue Bonds, Series B (Series B Bonds) to provide funds to pay the Series B Notes in August 1985. (The California initiative subsequently failed.)

In March 1987, M-S-R PPA issued its $273,760,000 San Juan Project Revenue Bonds, Series C (Series C Bonds) to refund $244,795,000 aggregate principal amount of Series B Bonds.

In January 1990, M-S-R PPA issued its $86,000,000 San Juan Revenue Bonds, Series D (Series D Bonds) to refund $76,675,000 aggregate principle of Series A Bonds.

M-S-R PPA issued its $117,135,000 Series E Bonds in April 1991 to finance its ownership interest in the Southwest Transmission Project. The funds were used to construct a portion of the Mead-Phoenix Transmission Project, a portion of the Mead-Adelanto Transmission Project, and set aside $5 Million for possible improvements on the PG&E Transmission system north of Midway Substation. PG&E improvements were ultimately completed without the need for funds from M-S-R PPA and
construction costs for the Southwest Transmission Project were less than projected. In February 1997, M-S-R PPA took the available cash ($28.47 Million) and retired certain Series E Bonds.

In 1993, M-S-R PPA issued $108,960,000 San Juan Project Bonds, Series F (Series F Bonds) – April 1993 to refund certain Series A Bonds.

M-S-R PPA has issued refunding bonds to take advantage of improved interest rates over the years. In 1995, M-S-R PPA neared its limit for outstanding bond debt under the original bond indentures and instituted a Subordinate Lien Indenture to complete refundings and to issue variable rate date not permitted under the original bond indentures. In addition, Internal Revenue Service rules limit the number of refundings as being eligible for tax-exempt status. Therefore, certain refunding debt was issued as taxable debt.


In 1997, M-S-R PPA issued floating rate debt to refund certain Series C Bonds and Series D Bonds:
- $97,515,000 San Juan Project Bonds, Series G (Series G Bonds) – March 1997
- $86,700,000 San Juan Project Bonds, Series H (Series H Bonds) – March 1997
- $65,000,000 San Juan Project Subordinate Lien Revenue Bonds, Series 1997D (Series 1997D Bonds) – March 1997 (Tax-Exempt)
- $65,000,000 San Juan Project Subordinate Lien Revenue Bonds, Series 1997E (Series 1997E Bonds) – March 1997 (Taxable)

In 1998, M-S-R PPA issued debt that was the subject of an interest rate swap with Morgan Guarantee Trust Company of New York to refund certain Series A and Series C Bonds.
- $17,000,000 San Juan Project Subordinate Lien Revenue Bonds, Series 1998G (Series 1998G Bonds) – November 1998 (Taxable)
In 2001, M-S-R PPA issued $64,320,000 San Juan Project Bonds, Series 2001I (Series I Bonds) – September 2001 to refund outstanding Series E transmission project bonds.

In 2003, M-S-R PPA issued $54,435,000 San Juan Project Subordinate Lien Revenue Bonds, Series 2003I (Series 2003I Bonds) – May 2003 floating rate debt that was subject to an interest rate swap agreement from 2002 with Bear Sterns Capital Markets, Inc to refund certain Series F Bonds.


- $17,000,000 San Juan Project Subordinate Lien Revenue Bonds, Series 2008N (Series 2008N Bonds) – July 2008

Also in 2008, interest rate swap agreements for the entire Series 2008M Bonds and Series 2008N Bonds were entered into with Morgan Guaranty Trust Company of New York.

In 2011, M-S-R PPA issued $34,050,000 San Juan Project Subordinate Lien Revenue Bonds, Series 2011O (Series 2011O Bonds) – April 2011 to refund certain Series 2001I Bonds. Also in 2011, M-S-R PPA remarketed and reissued the Series 2008M Bonds and Series 2008N Bonds to Wells Fargo Bank, National Association pursuant to a Continuing Covenant Agreement.

In 2013, M-S-R PPA issued $57,485,000 San Juan Project Subordinate Lien Revenue Bonds, Series 2013P (Series 2013P Bonds) – Fall 2013 (Taxable) which were replaced with $55.600 Million, San
Juan Project Subordinate Lien Revenue Bonds Series 2014Q (Series 2014Q Bonds) – Spring 2014 (Tax-exempt) to refund certain Subordinate Lien Revenue Bonds Series 1997D.

In 2016 M-S-R PPA realized $60 Million in cash from the sale of the Southwest Transmission Project. These funds were used to call and defease certain bonds and partially terminate swap arrangements at a total cost of $51.7 million to reduce the remaining debt service payments by an amount of $54.9 million. In addition, certain funds were used to partially fund a decommissioning trust fund, partially fund a mine reclamation trust fund, and to fund a debt service coverage revolving fund.


As of December 31, 2018, M-S-R PPA is scheduled to have the following outstanding debt:

<table>
<thead>
<tr>
<th>Issue</th>
<th>Year of Issue</th>
<th>Maturity</th>
<th>Coupon Rates %</th>
<th>Amount of Issue</th>
<th>Principal Outstanding</th>
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<tr>
<td>San Juan Subordinate Lien Revenue Bonds Series 2018R</td>
<td>2018</td>
<td>2019-2022</td>
<td>4.00-5.00</td>
<td>$98,850,000</td>
<td>$98,850,000</td>
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<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td>$98,850,000</td>
<td>$98,850,000</td>
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## Alphabetical List of Exhibits:

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<th>TAB</th>
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<td><strong>Big Horn Operating Procedures</strong> – Service Schedule A to the Operating Agreement, Amended and Restated Big Horn Operating Procedures, adopted by the M-S-R PPA Commission November 23, 2012 per Resolution 2012-05</td>
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<td><strong>Big Horn II Operating Procedures</strong> – Operating Agreement Service Schedule K – Operating and Accounting Procedures For Big Horn II Wind Energy Project adopted by the M-S-R Commission May 18, 2011 pursuant to Resolution 2011-05</td>
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<td><strong>CEQA Guidelines</strong> – Resolution No. 95 – 1, Adopted February 22, 1995, Adopting Guidelines For The Implementation of the California Environmental Quality Act</td>
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</tr>
<tr>
<td>Topic</td>
<td>Description</td>
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<tr>
<td>----------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------------------------------</td>
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<tr>
<td><strong>Election and Duties of Officers</strong></td>
<td>Resolution No. 2013 – 01 Adopted March 20, 2013 Regarding Election and Duties of Officers</td>
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<td><strong>Filing of Quarterly Treasurer’s Reports and Annual Audits</strong></td>
<td>Memorandum Dated November 23, 2015 Regarding Filing of Quarterly Treasurer’s Reports and Annual Audits</td>
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<tr>
<td><strong>Investment Policy Guidelines</strong> of the M-S-R Public Power Agency</td>
<td>(approved by Commission January 24, 2018)</td>
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<td><strong>Investment Signatories</strong></td>
<td>Resolution No. 2012 -03 Adopted July 18, 2012 Approving Signatories Authorized to Invest M-S-R Public Power Agency Monies in the Local Agency Investment Fund and Other Permitted Investments</td>
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<tr>
<td><strong>Joint Exercise Of Powers Agreement</strong></td>
<td>M-S-R Public Power Agency By And Among the Modesto Irrigation District and the City Of Santa Clara and the City Of Redding, dated as of April 29, 1980, Amended and Restated as of November 17, 1982, as amended by Amendment Number 1 to the Amended and Restated Joint Powers Agreement, dated June 26, 1990, and by Amendment 2 to the Amended and Restated Joint Exercise of Powers Agreement, dated January 24, 2006</td>
</tr>
<tr>
<td><strong>KBT, LLC</strong></td>
<td>Agreement for Professional Services by and between KBT, LLC and M-S-R Public Power Agency dated September 15, 2010</td>
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<td><strong>L &amp; R Workplan</strong></td>
<td>California and Federal Legislative And Regulatory Representative Workplans 2018</td>
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<tr>
<td><strong>Martin Hopper Energy Consulting</strong></td>
<td>Amended and Restated Management Services Agreement by and between M-S-R Public Power Agency and Martin R. Hopper dba Martin Hopper Energy Consulting effective as of, January 1, 2010</td>
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<td><strong>Meeting Schedules And Posting Of Agendas</strong></td>
<td>Resolution No. 2013 – 05 Adopted October 16, 2013 Regarding Meeting Schedules And Procedures For Posting Of Agendas For The M-S-R PPA Commission</td>
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<td><strong>Member Cash Call Reserve Account</strong></td>
<td>Resolution No. 99-01, Adopted November 17, 1999 Establishing a Member Cash Call Reserve Account Policy and a Member Cash Call Reserve Account</td>
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<td><strong>Montague DeRose</strong></td>
<td>Agreement For Professional Financial Advisor Services by and between M-S-R Public Power Agency, and Montague DeRose And Associates, LLC, effective January 1, 2010, as amended through Amendment No. 2.</td>
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<td><strong>Montgomery &amp; Andrews, PA</strong></td>
<td>Engagement Letter Between Montgomery</td>
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<tr>
<td>Agreement / Document Name</td>
<td>Description / Details</td>
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<tr>
<td>&amp; Andrews, PA and the M-S-R Public Power Agency dated September 10, 2010</td>
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<tr>
<td><strong>Operating Agreement</strong> – Amended and Restated Operating Agreement Between The M-S-R Public Power Agency and the Modesto Irrigation District, The City of Santa Clara, California, and The City of Redding, California dated February 1, 1997 with service schedules that may be revised from time to time. This agreement superseded the “Principles for the Scheduling and Dispatch of the M-S-R Public Power Agency’s San Juan Project Power,” dated June 20, 1984.</td>
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<td><strong>Orrick, Herrington &amp; Sutcliffe LLP</strong> – Engagement Letter For Bond Counsel Services Outside a Specific Financing Program Between the M-S-R Public Power Agency And Orrick, Herrington &amp; Sutcliffe LLP dated as of May 27, 1997</td>
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<td><strong>Porter Simon Professional Corporation</strong> – Agreement for Legal Representation between Porter Simon Professional Corporation and M-S-R Public Power Agency dated as of August 1, 1997</td>
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<td><strong>Real Property Acquisition</strong> – Resolution No. 95 – 2, Adopted February 22, 1995, Adopting Guidelines For The Acquisition Of Real Property</td>
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<td>San Juan – Operating Procedure No. 1 to Service Schedules D and E between Tucson Electric Power Company and M-S-R Public Power Agency dated April 27, 1995</td>
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<td>Susie Berlin – Legal Services Agreement By and Between Law Offices of Susie Berlin and the M-S-R Public Power Agency dated April 1, 2013</td>
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<td>Ten-Year Forecast – San Juan Ten-Year Forecast and Legacy Liability Funding Status Report, noted and filed by M-S-R Commission January 24, 2018</td>
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<td>Terms of Use Agreement – Web Site Between User and M-S-R Public Power Agency Revised: July 28, 2010</td>
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<td><strong>Tucson/San Juan Project Power Sales Agreement</strong> dated November 17, 1982, as amended August 30, 1999, between the M-S-R Public Power Agency and the Modesto Irrigation District, the City of Santa Clara, and the City of Redding</td>
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<td><strong>WREGIS REC Accounting</strong> – Policy and Procedure 2009-01, WREGIS REC Accounting and Distribution, dated August 31, 2009</td>
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</table>
In 2013, the General Manager met with Iberdrola Renewables, Inc (now Avangrid Renewables, Inc.) regarding the status of its transfers of Western Renewable Energy Generation Information System (WREGIS) Renewable Energy Credits (RECs) for the Big Horn I and Big Horn II Wind Energy Projects to M-S-R PPA. Ideally, the WREGIS timelines would allow transfers of RECs to M-S-R PPA about 90-days after the close of a reporting month. At the time of that meeting, some transfers were as many as 215-days outstanding. Avangrid has subsequently reviewed its internal procedures and has generally completed Big Horn I and Big Horn II transfers in a timely manner. The attached chart illustrates current and historic status of REC transfers. As requested by the Commission, this report will be updated and presented every other month.

I recommend the Commission note and file the September 2018 WREGIS REC Transfers Status Report.
Big Horn I & II REC Transfers

- BH I Duration
- BH II Duration
- Open Transfers

Elapsed Time (Days)

Month

Jan-08 May-09 Oct-10 Feb-12 Jul-13 Nov-14 Apr-16 Aug-17
### REC Transfer Timeliness

<table>
<thead>
<tr>
<th>Month Ending</th>
<th>Date Transferred to Members</th>
<th>BH I Duration</th>
<th>Date Transferred to Members</th>
<th>BH II Duration</th>
<th>Today's Date</th>
<th>Open Transfers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jun-18</td>
<td>30-Aug-18</td>
<td>92</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>May-18</td>
<td>30-Aug-18</td>
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</tbody>
</table>

**Note:** Rec'd from IRI 3-Mar-15

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**BH II Duration**

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<th>Date Transferred to Members</th>
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**Note:** Rec'd from IRI 3-Apr-15

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**BH I Duration**

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**Note:** Rec'd from IRI 3-Apr-15