

HVDC TRANSMISSION OPERATING AGREEMENT

(November 29, 2011)

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HVDC TRANSMISSION OPERATING AGREEMENT

This HVDC Transmission Operating Agreement (this “HVDC TOA” or this “Agreement”), dated as of April 1, 2005, is made and entered into by the owners of the Phase I/II HVDC Transmission Facilities (“Asset Owners”) and ISO New England Inc. (the “ISO”) (the Asset Owners and the ISO are collectively referred to herein as the “Parties”).

WHEREAS, certain United States utilities and Hydro-Québec TransÉnergie, a utility operating within the province of Quebec, Canada, have constructed certain facilities in two phases (“Phase I” and “Phase II”) that provide a high voltage direct current (“HVDC”) interconnection between the electric systems in New England and the electric system of Hydro-Québec TransÉnergie. The Phase I and Phase II facilities in the United States are referred to in this Agreement as the “Phase I/II HVDC Transmission Facilities” or the “HVDC-TF” and are described in detail in Schedule 2.01(a). Phase II increases the total transfer capacity between Hydro-Québec TransÉnergie and New England from 690 MW to approximately 2000 MW.

WHEREAS, the Asset Owners own and/or operate the Phase I/II HVDC Transmission Facilities within the United States and are comprised of the following companies: New England Hydro-Transmission Electric Company, Inc.; New England Hydro-Transmission Corporation; New England Electric Transmission Corporation; and Vermont Electric Transmission Company.

WHEREAS, the ISO is a non-stock, non-profit corporation organized and existing under the laws of the State of Delaware that is the regional transmission organization (“RTO”) for New England and is authorized by the Federal Energy Regulatory Commission (“FERC”) to exercise the functions required of RTOs pursuant to FERC’s Order No. 2000 (“Order 2000”) and FERC’s RTO regulations;

WHEREAS, the ISO will be responsible for system planning within the New England region;

WHEREAS, the functions to be performed by the ISO under Order 2000 require that the ISO have the requisite operational authority over the Asset Owners’ Phase I/II HVDC Transmission Facilities;

WHEREAS, in accordance with the terms set forth herein, the Asset Owners desire for the ISO to exercise, and the ISO desires to exercise, Operating Authority (as defined in Section 3.02 of this Agreement) over the Phase I/II HVDC Transmission Facilities (as defined in this Agreement) consistent with the requirements of Order 2000;

WHEREAS, the Asset Owners will, among other things, have an operator responsible for operating the Phase I/II HVDC Transmission Facilities, located on its site, and will make all necessary reports to the ISO, and Local Control Centers where applicable, necessary for dispatch of the Phase I/II HVDC Transmission Facilities;

WHEREAS, the Asset Owners will continue to own, physically operate, and maintain their Phase I/II HVDC Transmission Facilities;

WHEREAS, the Asset Owners intend to enter into an Asset Owners Agreement with Hydro-Québec TransÉnergie addressing the coordinated operation of the Phase I/II HVDC Transmission Facilities with the facilities operated by Hydro-Québec TransÉnergie.

WHEREAS, the ISO, pursuant to authority provided by this Agreement, intends to enter into an Interconnection Operators Agreement with Hydro-Québec TransÉnergie addressing the coordinated operation of the Phase I/II HVDC Transmission Facilities with the facilities operated by Hydro-Québec TransÉnergie.

WHEREAS, the Asset Owners have certain pre-existing obligations with respect to financing of the Phase I/II HVDC Transmission Facilities as set forth in certain support agreements and financing agreements (“Grandfathered Facility Agreements”), and the Operating Authority of the ISO pursuant to this agreement shall be consistent with the rights and obligations of the Asset Owners under the Grandfathered Facility Agreements;

WHEREAS, certain entities (the “Interconnection Rights Holders” or “IRH”) pay for the Phase I/II HVDC Transmission Facilities in exchange for exclusive rights to the transmission capacity of the Phase I/II HVDC Transmission Facilities, as provided for under the Support Agreements and the Restated Use Agreement;

WHEREAS, the IRHs, acting through the IRH Management Committee and certain individual Interconnection Rights Holders providing transmission service over the Phase I/II HVDC Transmission Facilities (the “Schedule 20A Service Providers”), have concurrently with this Agreement entered into a Phase I/II HVDC-TF Transmission Service Administration Agreement (the “TSAA”) with the ISO; governing the administration of transmission service over the Phase I/II HVDC Transmission Facilities and the rights and obligations of the IRH and the ISO with respect to the rights to the transmission capacity of the HVDC-TF and the Schedule 20A Service Providers will make transmission service over the Phase I/II HVDC Transmission Facilities available to transmission customers under a schedule to the ISO Open Access Transmission Tariff (the “ISO OATT”), which is Section II of the ISO New England Transmission, Markets and Services Tariff (the “ISO Tariff”);

WHEREAS, the Asset Owners have determined that the transfer of Operating Authority to the ISO will be for the collective benefit of all Asset Owners and IRHs, provided that the rights and obligations of all Parties under this Agreement shall be limited to those rights and obligations expressly set forth herein;

and

WHEREAS, the Asset Owners reserve the right to transfer certain rights and obligations to an Independent Transmission Company in accordance with Section 10.01(b)(iv).

NOW, THEREFORE, in consideration of the promises, and the mutual representations, warranties, covenants and agreements hereinafter set forth, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound, each of the Asset Owners and the ISO agree as follows:

ARTICLE I

DEFINITIONS; INTERPRETATIONS

1.01 Definitions; Interpretations.

Each of the capitalized terms and phrases used in this Agreement (including the foregoing recitals) and not otherwise defined herein shall have the meaning specified in Schedule 1.01. In this Agreement, unless otherwise provided herein:

(a) words denoting the singular include the plural and vice versa;

(b) words denoting a gender include all genders;

(c) references to a particular part, clause, section, paragraph, article, exhibit, schedule, appendix or other attachment shall be a reference to a part, clause, section, paragraph, or article of, or an exhibit, schedule, appendix or other attachment to, this Agreement;

(d) the exhibits, schedules and appendices attached hereto are incorporated herein by reference and shall be construed with and as an integral part of this Agreement to the same extent as if they were set forth verbatim herein;

(e) a reference to any statute, regulation, proclamation, ordinance or law includes all statutes, regulations, proclamations, amendments, ordinances or laws varying, consolidating or replacing the same from time to time, and a reference to a statute includes all regulations, policies, protocols, codes, proclamations and ordinances issued or otherwise applicable under that statute unless, in any such case, otherwise expressly provided in any such statute or in this Agreement;

(f) a reference to a particular section, paragraph or other part of a particular statute shall be deemed to be a reference to any other section, paragraph or other part substituted therefor from time to time;

(g) a definition of or reference to any document, instrument or agreement includes any amendment or supplement to, or restatement, replacement, modification or novation of, any such document, instrument or agreement unless otherwise specified in such definition or in the context in which such reference is used;

(h) a reference to any Person (as hereinafter defined) includes such Person's successors and permitted assigns in that designated capacity;

(i) any reference to "days" shall mean calendar days unless "Business Days" (as hereinafter defined) are expressly specified;

(j) if the date as of which any right, option or election is exercisable, or the date upon which any amount is due and payable, is stated to be on a date or day that is not a Business Day, such right, option or election may be exercised, and such amount shall be deemed due and payable, on the next succeeding Business Day with the same effect as if the same was exercised

or made on such date or day (without, in the case of any such payment, the payment or accrual of any interest or other late payment or charge, provided such payment is made on such next succeeding Business Day);

(k) words such as “hereunder,” “hereto,” “hereof” and “herein” and other words of similar import shall, unless the context requires otherwise, refer to this Agreement as a whole and not to any particular article, section, subsection, paragraph or clause hereof;

(l) a reference to “include” or “including” means including without limiting the generality of any description preceding such term, and for purposes hereof the rule of *ejusdem generis* shall not be applicable to limit a general statement, followed by or referable to an enumeration of specific matters, to matters similar to those specifically mentioned; and

(m) neither this Agreement nor any other agreement, document or instrument referred to herein or executed and delivered in connection herewith shall be construed against any Person as the principal draftsman hereof or thereof.

ARTICLE II

HVDC TRANSMISSION FACILITIES

2.01 Phase I/II HVDC Transmission Facilities.

(a) As to any Asset Owner, the Phase I/II HVDC Transmission Facilities over which the ISO shall exercise Operating Authority in accordance with the terms set forth herein shall be the Phase I/II HVDC Transmission Facilities included in Schedule 2.01(a) as of the Effective Date, provided that facilities may be added to or deleted from Schedule 2.01(a) without the necessity of an amendment to this Agreement, but only in the following manner:

(i) at the direction of a Governmental Authority with jurisdiction over the Phase I/II HVDC Transmission Facilities in question, provided that the ISO shall be provided prior written notice of such changes; or

(ii) as agreed between the ISO and the Asset Owner owning the Phase I/II HVDC Transmission Facilities.

(b) The Phase I/II HVDC Transmission Facilities listed in Schedule 2.01(a) shall not include Excluded Assets as defined in Section 2.03.

2.02 Upgrades to Phase I/II HVDC Transmission Facilities.

Consistent with Section 2.01, any upgrades to the Phase I/II HVDC Transmission Facilities interconnected to or within the New England Transmission System constructed and placed in commercial operation after the Effective Date shall become subject to the authority of the ISO by amending this Agreement as set forth in Section 2.01 above.

2.03 Excluded Assets.

The “Excluded Assets” of each Asset Owner shall consist of those assets and/or facilities set forth in this Section 2.03. Such Excluded Assets are expressly excluded from the definition of Phase I/II HVDC Transmission Facilities under this HVDC TOA, and the ISO shall not have Operating Authority over the Asset Owners’ Excluded Assets:

(a) Any assets, facilities, and/or portions of facilities owned by such Asset Owner that are connected with or associated with those facilities listed in Schedule 2.01(a) to the extent specifically excluded pursuant to the following items (i) through (vii) of this Section 2.03:

(i) proceeds from the use or disposition of Phase I/II HVDC Transmission Facilities;

(ii) any payment, refund or credit (1) relating to Taxes in respect of the Phase I/II HVDC Transmission Facilities of such Asset Owner, (2) arising under any contracts or tariffs of such Asset Owner and relating to services provided prior to the beginning of the Term, (3) arising under any contract or tariff that provides for rates that are subject to regulation by an agency other than FERC, or (4) relating to a Grandfathered Facility Agreement;

(iii) any rights, ownership, title or interest any Asset Owner may have with respect to telecommunications assets and equipment, provided that the ISO shall continue to have the right to use such telecommunication assets and equipment attached to or associated with Phase I/II HVDC Transmission Facilities solely to the extent needed for the exercise of the ISO’s Operating Authority in accordance with practice prior to the Operations Date and further provided that such use right shall not be assignable by the ISO;

(iv) any existing contracts or contract rights of the Asset Owners related in any manner to Phase I/II HVDC Transmission Facilities unless such Asset Owner assigns or transfers such contracts to the ISO, provided that the Asset Owners shall exercise their rights and responsibilities under Grandfathered Facility Agreements in accordance with Section 3.09 and the applicable provisions of this Agreement;

(v) any assets, property rights, licenses, permits or facilities that are used for or in (1) the distribution, generation, trading or marketing of electricity, (2) gas transportation, gas, water, petroleum, chemical, real estate development, or cable business, or (3) any other activity unrelated to the transmission of electricity located on, or making use of, the Phase I/II HVDC Transmission Facilities;

(vi) any causes of action or claims related to Phase I/II HVDC Transmission Facilities, provided, that upon the written agreement of an Asset Owner and the ISO to the assumption by the ISO of the management of such claims under mutually agreed terms and conditions, the ISO may manage such Asset Owner’s causes of action or claims against a third party relating to the Phase I/II HVDC Transmission Facilities, and provided further that the ISO shall

have the right to pursue causes of action or claims against third parties to the extent necessary for the ISO to fulfill its responsibilities; and

(vii) any asset or facility for which Operating Authority may not be lawfully transferred or assigned.

(b) Any assets or facilities of such Asset Owner that are not specifically defined as Phase I/II HVDC Transmission Facilities, including without limitation the facilities or portions of facilities described in items (i) through (xii) of this Section 2.03(b):

(i) all cash, cash equivalents, bank deposits, accounts receivable, and any income, sales, payroll, property or other Tax receivables;

(ii) proceeds from the use or disposition of any facilities or assets owned by the Asset Owner;

(iii) certificates of deposit, shares of stock, securities, bonds, debentures, and evidences of indebtedness;

(iv) any rights or interest in trade names, trademarks, service marks, patents, copyrights, domain names or logos;

(v) any payment, refund or credit (1) relating to Taxes, (2) arising under any contracts or tariffs of the Asset Owners and relating to services provided prior to the beginning of the Term, or (3) arising under any contract or tariff that provides for rates that are subject to regulation by an agency other than FERC;

(vi) any facilities, including transmission facilities, located outside the New England Transmission System;

(vii) any rights, ownership, title or interest the Asset Owner may have with respect to telecommunications assets and equipment;

(viii) any existing contracts or contract rights of the Asset Owner unless the Asset Owner agrees to assign or transfer such contracts to the ISO;

(ix) any assets, property rights, licenses, permits or facilities that are used for or in (1) the distribution, generation, trading or marketing of electricity or (2) gas transportation, gas, water, petroleum, chemical, real estate development, or cable business, or (3) any other activity unrelated to the transmission of electricity whether or not located on, or making use of, the Phase I/II HVDC Transmission Facilities;

(x) any causes of action or claims;

(xi) any asset or facility for which Operating Authority may not be lawfully transferred or assigned; and

(xii) any interests of any kind in each Asset Owner's real property, provided that nothing in this Section 2.03 shall restrict an Asset Owner from conveying interests in real property in any future written agreement into which the ISO and such Asset Owner may, in their sole discretion, enter.

2.04 Connection with Non-Parties.

(a) If an Asset Owner: (i) is required by FERC regulations or FERC order to have on file with the FERC a Large Generator Interconnection Agreement and Large Generator Interconnection Procedures, and (ii) receives a request to interconnect from a Large Generating Facility, the Interconnection Agreement for such interconnection shall be a three-party agreement among the Asset Owner, the ISO, and the interconnecting non-Party based on the Large Generator Interconnection Agreement which the Asset Owner has on file with the FERC. If the Asset Owner, the ISO and the interconnecting non-Party agree to the terms and conditions of a specific Large Generator Interconnection Agreement for a Large Generating Facility, or any amendments to such an Interconnection Agreement, then the Asset Owner and the ISO shall jointly file the executed Interconnection Agreement, or amendment thereto, with FERC under Section 205 of the Federal Power Act. To the extent the Asset Owner, the ISO, and such interconnecting non-Party cannot agree to specific terms and conditions for the Large Generator Interconnection Agreement applicable to a specific Large Generating Facility or any amendments to such an Interconnection Agreement, then the Asset Owner and the ISO shall jointly file an unexecuted Interconnection Agreement, or amendment thereto, with FERC under Section 205 of the Federal Power Act and shall identify the areas of disagreement in such filing, provided that, in the event of disagreement on terms and conditions of the Interconnection Agreement related to the costs of upgrades to such Asset Owner's Phase I/II HVDC Transmission Facilities, the anticipated schedule for the construction of such upgrades, any financial obligations of the Asset Owner, and any provisions related to physical impacts of the interconnection on the Asset Owner's Phase I/II HVDC Transmission Facilities or other assets, then the standard applicable under Section 205 of the Federal Power Act shall apply only to the Asset Owner's position on such terms and conditions.

(b) To the extent that an Asset Owner is required by FERC regulations or FERC order to interconnect its Phase I/II HVDC Transmission Facilities with the facilities of any entity other than a Large Generating Facility, the Parties shall negotiate in good faith to develop modifications to this Agreement, if any, needed to reflect such requirements.

2.05 Review of Transmission Plans.

Each Asset Owner shall submit to the ISO in such form, manner and detail as the ISO may reasonably prescribe: (i) any new or materially changed plans for retirements of or changes in the capacity of such Asset Owner's Phase I/II HVDC Transmission Facilities rated 69 kV or above or plans for construction of upgrades to the Phase I/II HVDC Transmission Facilities rated 69 kV or above; and (ii) any new or materially changed plan for any other action to be taken by such Asset Owner which may have a significant effect on the stability, reliability or operating characteristics of such Asset Owner's Phase I/II HVDC Transmission Facilities, the facilities of any Transmission Owner (including the facilities of any other Asset Owner) or the system of a Participant. Unless prior to the expiration of ninety (90) days from receipt of the Asset Owner's

submittal, the ISO notifies the Asset Owner in writing that it has determined that implementation of the plan will have a significant adverse effect upon the reliability or operating characteristics of the Asset Owner's Phase I/II HVDC Transmission Facilities, the facilities of any Transmission Owner, or the system of a Participant, the Asset Owner shall be free to proceed. If the ISO notifies the Asset Owner that implementation of such plan has been determined to have a significant adverse effect upon the reliability or operating characteristics of the Asset Owner's Phase I/II HVDC Transmission Facilities, the facilities of any Transmission Owner or the system of a Participant, the Asset Owner shall not proceed to implement such plan unless the Asset Owner takes such action or constructs such facilities as the ISO determines to be reasonably necessary to avoid such adverse effect.

2.06 Condemnation.

If, at any time, any Governmental Authority commences any process to acquire any Phase I/II HVDC Transmission Facilities or any other interest in the Phase I/II HVDC Transmission Facilities then held by an Asset Owner through condemnation or otherwise through the power of eminent domain, (i) the Asset Owner shall provide the ISO with written notice of such process, (ii) the Asset Owner shall, at its cost, direct any litigation or proceeding regarding such condemnation or eminent domain matter, (iii) the Asset Owner shall have the right to settle any such proceeding without the consent of the ISO, and (iv) any award in condemnation or eminent domain shall be paid to the Asset Owner without any claim to such award by the ISO.

ARTICLE III

OPERATING AUTHORITY

3.01 Grant of Operating Authority.

Subject to the terms set forth in this Agreement, including Article III and Article X hereof, and effective as of the Effective Date, each Asset Owner hereby authorizes the ISO, through its officers, employees, consultants, independent contractors and other personnel, to exercise Operating Authority over such Asset Owner's Phase I/II HVDC Transmission Facilities and the ISO hereby agrees to assume and exercise Operating Authority over such Asset Owner's Phase I/II HVDC Transmission Facilities in accordance with this Agreement, including the obligation to exercise such Operating Authority in accordance with Good Utility Practice.

(a) The grant by the Asset Owners to the ISO and the assumption by the ISO of Operating Authority over the Phase I/II HVDC Transmission Facilities are solely for the purposes of allowing the ISO to fulfill the functions of an RTO as specified herein and do not constitute an assumption by the ISO of any liabilities with respect to the Phase I/II HVDC Transmission Facilities except as otherwise specifically provided herein (including as provided in Article IX of the Agreement).

(b) Nothing herein or elsewhere contained shall be construed as requiring or effecting a transfer of each Asset Owner's responsibility (or the assumption thereof by the ISO) for the physical control of the Phase I/II HVDC Transmission Facilities, including the physical operation, repair, maintenance and replacement of such Phase I/II HVDC Transmission

Facilities, or as conveying to the ISO: (x) any right, ownership, title or interest in or to an Asset Owner's Phase I/II HVDC Transmission Facilities; (y) any right of access to an Asset Owner's real property, except as specified in Section 3.02(i); or (z) any rights or authority with respect to any Asset Owner's Excluded Assets, except as specifically provided herein.

3.02 Definition of the ISO's Operating Authority.

Consistent with the provisions of this Agreement, including Section 3.02(a) below, "Operating Authority" shall mean those functions and responsibilities set forth in Sections 3.02, 3.03, and 3.06 and shall not include those rights, responsibilities and functions set forth in Sections 3.04 and 3.05. Subject to the first sentence of this Section 3.02, the ISO shall exercise such Operating Authority in accordance with applicable Operating Procedures and Additional HVDC Procedures as specified in Sections 3.02(d) and (e) below.

(a) The ISO shall perform the following functions with respect to the Asset Owners' Phase I/II HVDC Transmission Facilities, consistent with applicable NERC/NPCC Requirements and other applicable regulatory standards, including (as needed) issuing instructions to, or coordinating with the Sandy Pond Control Center and the associated Local Control Center with responsibility for Phase I/II HVDC Transmission Facilities:

(i) centrally dispatch generation, (and dispatchable and interruptible load) and implement real-time balancing, including meeting NERC control performance criteria;

(ii) determine Operating Limits based on forecasted or real-time system conditions and in accordance with Presidential Permits and the facility ratings established by the Asset Owners in collaboration with the ISO pursuant to Section 3.04;

(iii) take such actions as may be necessary to plan and maintain shortterm (including real-time) reliability and system security (including curtailment of External Transactions in accordance with the FERC-accepted or -approved ISO Tariff and the HVDC-TF Service Administration Agreement);

(iv) consistent with the ISO Information Policy, exchange security information with applicable Asset Owners, IRHs, non-Asset Owner transmission operators, and other neighboring systems and regional entities;

(v) provide for an ISO Control Center and an independent Back-up Control Center, as the ISO deems necessary to comply with applicable NERC/NPCC Requirements and any applicable regulatory requirement; and

(vi) dispatch all Phase I/II HVDC Transmission Facilities via the Sandy Pond Control Center or associated Local Control Center as applicable and in accordance with applicable Operating Procedures, Additional HVDC Procedures and Common Dispatch Instructions. The ISO will coordinate directly with Sandy Pond Control Center or the associated Local Control Center as applicable for the purpose of scheduling External Transactions and the associated

power transfers with external Control Areas including the notification of ramp time, duration, and magnitude.

(b) The ISO shall enter into Coordination Agreements and operating arrangements with the operators of neighboring Control Areas; coordinate system operation and emergency procedures with neighboring Control Areas; act in a manner not inconsistent with Interconnection Agreements with neighboring Control Areas; and administer scheduling provisions of the tariff(s) applicable to External Transactions, in accordance with the terms of those agreements and tariffs provided that as of the Effective Date, the applicable agreements and tariffs shall be the Interconnection Operators Agreement, the Asset Owners Agreement, and the ISO Tariff.

(c) The ISO shall act as the Reliability Authority for the New England Transmission System. The ISO may intercede and direct appropriate near-term operational actions in order to protect reliability, provided that nothing in this Section 3.02(c) shall require the Asset Owners to undertake an action contrary to applicable Law or shall limit the right of each Asset Owner pursuant to Section 3.05 to take any action(s) that it deems necessary to prevent loss of human life, injury to persons and/or damage to property.

(d) (i) The ISO shall utilize the Operating Procedures relating to the exercise of Operating Authority over the Phase I/II HVDC Transmission Facilities. Such Operating Procedures shall initially consist of the Operating Procedures in existence or developed as of the Effective Date (hereinafter “Existing Operating Procedures”). Such Existing Operating Procedures shall consist of those Operating Procedures listed in Schedule 3.02(d). The ISO shall develop any modifications to Operating Procedures (including Existing Operating Procedures) and any new Operating Procedures that it may deem necessary or appropriate: (A) in coordination with the Asset Owners whose Phase I/II HVDC Transmission Facilities will be operated in accordance with such Operating Procedures (and the Sandy Pond Control Center and the associated Local Control Center, as applicable) so as to ensure that that the Asset Owners’ knowledge of the Phase I/II HVDC Transmission Facilities is given due consideration in the development or modification of the transmission related portions of such Operating Procedures and (B) in consultation with other stakeholders. The ISO shall have the authority to modify Operating Procedures or develop new Operating Procedures without such coordination or consultation only when the ISO does not have sufficient time to undertake such coordination or consultation due to emergent and unanticipated circumstances. In the event that the ISO and the Asset Owners disagree about modifications to the transmission related portions of the Operating Procedures or any new Operating Procedures related to the operation of the Phase I/II HVDC Transmission Facilities, the affected Asset Owners will have the opportunity to submit the dispute for resolution in accordance with the dispute resolution provisions set forth in Section 11.12 herein. Pending such resolution, the ISO shall have the authority, as the system operator with ultimate authority for the real-time operation of the New England Transmission System, to implement any such new Operating Procedures or modified Operating Procedures.

(ii) Notwithstanding anything in the foregoing, Operating Procedures related to the establishment of ratings for upgrades to the Phase I/II HVDC Transmission Facilities or related to changes to existing ratings of the Phase I/II HVDC Transmission Facilities (collectively “Rating Procedures”) shall be developed and placed into effect pursuant to Section 3.04(a)(v).

(iii) To the extent the Asset Owners will be required to physically operate their Phase I/II HVDC Transmission Facilities in accordance with any operational documents in effect as of the Effective Date or as subsequently developed or amended by the ISO (other than Operating Procedures) including any protocols developed by the ISO pursuant to a Coordination Agreement, the ISO shall develop or amend such operational documents in coordination with the Asset Owners (and the Sandy Pond Control Center and associated Local Control Center, as applicable) whose Phase I/II HVDC Transmission Facilities will be operated in accordance with such documents, subject to the right of the ISO to place such operating documents into effect in the event of a dispute concerning such documents and the right of the Asset Owners to submit the dispute for resolution in accordance with the dispute resolution provisions set forth in Section 11.12 herein.

(iv) Any coordination and stakeholder consultation under this Section 3.02(d) shall be conducted in accordance with the regulations implementing FERC Order No. 889. All coordination with the Asset Owners under this Section 3.02(d) will be accomplished on a consolidated basis with the ISO and other transmission owners. All consultation under this Section 3.02(d) will also be accomplished on a consolidated basis with the ISO, Asset Owners, Participating Transmission Owners, Local Control Centers, the Reliability Committee and the Transmission Committee.

(e) In addition to the procedures listed in Schedule 3.02(d), the Asset Owners and the ISO may negotiate in good faith to include Additional HVDC Procedures for the operation of the Phase I/II HVDC Transmission Facilities in Schedule 3.02(e) to this HVDC TOA. These procedures may include, but are not limited to, operating instructions established between the ISO and the Asset Owners including those that address the functions and responsibilities of the Sandy Pond Control Center. If the functions and responsibilities of the Sandy Pond Control Center as stipulated in this Agreement are performed by a Local Control Center as of the Effective Date, then the Asset Owners may satisfy the Sandy Pond Control Center functions and responsibilities pursuant to this Agreement through the Local Control Center, and the Additional HVDC Procedures shall so specify. Such Additional HVDC Procedures shall be consistent with the Asset Owners’ responsibilities set forth in Section 3.04, and shall be listed in Schedule 3.02(e). Following the Effective Date, this list may be added to or deleted from without the necessity of an amendment to this Agreement, but only in the following manner:

(i) at the direction of a Governmental Authority, provided that the ISO and the Asset Owners shall be provided prior written notice of such changes;
or

(ii) as agreed between the ISO and the Asset Owners owning the Phase I/II HVDC Transmission Facilities affected by such Additional HVDC Procedures.

(f) The ISO shall seek agreement with the Asset Owners, where time limitations do not make it impracticable to do so, on real-time operational decisions affecting the Phase I/II HVDC Transmission Facilities not otherwise specified in the Operating Procedures developed in accordance with Section 3.02(d) and the Additional HVDC Procedures developed in accordance with Section 3.02(e). In the absence of such agreement, or if time limitations do not permit reaching agreement, the ISO shall implement its operational decision. If such ISO decision is disputed, the ISO's position shall control pending resolution of the dispute.

(g) The ISO shall coordinate voltage and reactive dispatch of facilities to the extent normal schedules are unable to be maintained by applicable Local Control Centers or the Sandy Pond Control Center.

(h) The ISO shall direct the implementation of emergency procedures, including inter-Control Area emergency energy transactions, Load Shedding and voltage reduction, in coordination with the applicable Local Control Centers or Sandy Pond Control Center and in accordance with applicable NERC/NPCC Requirements.

(i) The ISO shall have the authority to perform the following tasks in relation to compliance with current or future Asset Owner responsibilities:

(i) perform all compliance and monitoring responsibilities of the ISO, including the issuance of sanction letters, with respect to existing or successor NERC or NPCC compliance programs associated with standards, criteria and measurements for which the Asset Owners are responsible and accountable to the ISO. To the extent that the ISO receives a sanction letter from NERC or NPCC that is substantially related to the actions of an Asset Owner, the ISO may issue a sanction letter to such Asset Owner;

(ii) perform all compliance and monitoring responsibilities of the ISO associated with Operating Procedures and Additional HVDC Procedures relating to standards, criteria and measurements that the Asset Owners are responsible for and accountable to the ISO. Such responsibilities shall include audits of the Asset Owners for compliance with Operating Procedures and Additional HVDC Procedures to the extent the ISO determines such audits are necessary and the issuance of sanction letters;

(iii) perform periodic audits of the Sandy Pond Control Center and each Asset Owner's performance of the functions listed in Sections 3.06 (a)(i), (ii), (iii), (v), (vii), (viii), (ix) and (x) in accordance with applicable Operating Procedures and applicable reliability standards, including audits to monitor compliance of the Sandy Pond Control Center (and the Asset Owner employees interacting with the Sandy Pond Control Center and the associated Local Control Center) with the ISO Information Policy and applicable standards of conduct

consistent with FERC Order No. 889 in performing these functions. The Sandy Pond Control Center audits shall generally be conducted no more frequently than once every three years, provided that the ISO shall have the authority to conduct an audit more frequently if it determines that circumstances so require.

All audits conducted pursuant to this Section 3.02(j) shall be conducted by the ISO or by an independent third party, with expenses of the ISO (or the third-party auditor) borne by the ISO and recovered through its tariff. Each Asset Owner shall bear its own expenses in complying with the audit. Such audits shall be conducted during normal business or operational hours and with reasonable notice. The general scope of each audit and the general process for conducting the audit will be discussed with the applicable Asset Owners in advance. Nothing in this Section 3.02(j) shall imply that a sanction letter shall include any financial or other penalties. Nothing in this Section 3.02(j) shall limit the right of the ISO to separately file proposals at FERC to assess financial or other penalties against any entity or shall limit the right of the Asset Owners to comment on or protest any such proposals.

In the event that any Governmental Authority is established as the successor to NERC or NPCC or that a Governmental Authority assumes responsibility for performing of the audit functions contemplated by this Section 3.02(j), the Parties shall negotiate in good faith over modifications to this Section 3.02(j) that are appropriate to address such changes in circumstances.

(j) perform security analysis for the New England Transmission System as a whole, monitor and control, in accordance with the facility ratings established by the Asset Owners in collaboration with the ISO pursuant to Section 3.06, on a real-time basis, power flows on the system, voltage and system frequency; and

(k) coordinate with the applicable Local Control Centers or Sandy Pond Control Center as required on the settings for dynamic reactive resources, FACTS controllers, special protection systems, PARS, and other similar dynamic equipment that affects power flows, and approve or direct changes to such settings.

(l) If at any time, a Party provides notice to the other Parties that it believes NERC and NPCC documents that are not NERC/NPCC Requirements have been modified so as to expand the scope of the functions to be performed by the ISO or the Asset Owners, the Parties shall consider in good faith changes to this Agreement that will allow the Parties to follow such guidelines; provided, however, that, the Parties shall have no obligation to agree to such changes. If the Parties cannot agree to such changes, the dispute resolution procedures of Section 11.12 shall be utilized. Nothing in this Section 3.02(m) shall be construed to excuse any Party from complying with applicable NERC/NPCC Requirements.

3.03 The ISO's Responsibilities.

(a) In addition to its other obligations under this Agreement, in performing its obligations and responsibilities hereunder, and in accordance with Good Utility Practice, the ISO shall:

(i) maintain system reliability;

(ii) in all material respects, act in accordance with applicable Laws and conform to, and implement, all applicable reliability criteria, policies, standards, rules, regulations, orders, license requirements and all other applicable NERC/NPCC Requirements, Presidential Permits, the ISO's export authorization from the U.S. Department of Energy, and other applicable reliability organizations' reliability rules, and all applicable requirements of federal or state laws or regulatory authorities; and

(iii) act without undue preference to any Party

(b) The ISO shall obtain and retain all necessary authorizations of FERC and other regulatory authorities to function as the New England RTO and shall possess the characteristics and perform the functions required for that purpose.

(c) The ISO shall operate and maintain the OASIS for New England (or a successor system) as required by FERC, including posting of TTC on the Schedule 20A Service Provider page(s) on the OASIS for New England; provided, however, that such system shall conform to the requirements for such systems as specified by FERC.

3.04 Each Asset Owner's Responsibilities.

(a) From and after the Effective Date, each Asset Owner shall, in accordance with Good Utility Practice:

(i) direct switching and tagging and clearance procedures, physically operate, repair, and maintain its Phase I/II HVDC Transmission Facilities and Sandy Pond Control Center in accordance with this Agreement, applicable Law, applicable Operating Procedures, Additional HVDC Procedures, and in a manner that does not result in the violation of reliability standards applicable to the New England Transmission System;

(ii) through the Sandy Pond Control Center, carry out the orders of the ISO for the purpose of scheduling power transfers with external Control Areas, including the notification of ramp time, duration, and magnitude;

(iii) operate and maintain, or arrange for a third party, approved by the each Asset Owner, in its sole discretion, to operate and maintain, one or more suitable HVDC Control Centers (including any HVDC Control Center maintained as back-up for the Asset Owners' primary HVDC Control Center), provided that on the Effective Date, the HVDC Control Center shall be the Sandy Pond Control Center. The functions and responsibilities of the Sandy Pond Control Center may be performed by a Local Control Center. As specified in the Common Dispatch Instructions, Additional HVDC Procedures applicable to the Phase I/II HVDC Transmission Facilities, the Sandy Pond Control Center will either report to and coordinate directly with the ISO or will have direct reporting responsibilities to a Local Control Center which will report to and coordinate with the ISO. In the event that the Sandy Pond Control Center determines it will report to a Local Control Center, the physical location of the Phase I/II HVDC Transmission

Facilities will determine which Local Control Center the HVDC Transmission Station will fall under.

Each Asset Owner shall provide the ISO with reasonable notice of any significant change which impacts the ability of the ISO to exercise its responsibilities under this agreement and shall coordinate with the ISO to ensure that such a change will not adversely affect the reliable operation of the New England Transmission System. Each Asset Owner shall have the responsibility to ensure that the Sandy Pond Control Center, or a successor HVDC Control Center, if any, will: operate the Phase I/II HVDC Transmission Facilities on a 24 hour basis, implement the instructions, orders and directions received from the ISO in the exercise of its Operating Authority in accordance with Section 3.02, and perform the following functions in accordance with applicable Operating Procedures and/or Additional HVDC Procedures:

(A) switching and tagging (provided that the physical switching and tagging of Phase I/II HVDC Transmission Facilities will be performed by the Asset Owners with lines of demarcation established in consultation with the ISO consistent with applicable Operating Procedures and Additional HVDC Procedures, between the Sandy Pond Control Center and applicable Local Control Center);

(B) real-time monitoring of the Phase I/II HVDC Transmission Facilities;

(C) security analysis with respect to the Phase I/II HVDC Transmission Facilities;

(D) provide voltage and reactive support (within the capability of the Phase I/II HVDC Transmission Facilities) equipment provided that the ISO shall dispatch voltage and reactive power to the extent the Local Control Centers are unable to maintain normal voltage schedules with the Phase I/II HVDC Transmission Facilities;

(E) coordinate the development of settings for dynamic reactive resources, FACTS controllers, special protection systems, PARS, and other similar dynamic equipment that affects power flows;

(F) operation and maintenance of communication systems and software;

(G) implementation of Load Shedding (in accordance with applicable Operating Procedures and applicable Additional HVDC Procedures); and

(H) coordinate with the ISO with respect to congestion management efforts, provided that an Asset Owner employee who is engaged in such coordination and who is not a Sandy Pond Control

Center employee shall be subject to the same standards of conduct and applicable provisions of the ISO Information Policy as a Sandy Pond Control Center employee.

(I) coordinate with other entities interconnected with the New England Transmission System.

(iv) cooperate with the ISO's performance of the monitoring and audits in connection with all monitoring and compliance provisions detailed in Sections 3.02(j) of this Agreement;

(v) collaborate with the ISO with respect to:

(A) the development of Rating Procedures for Phase I/II HVDC Transmission Facilities,

(B) the establishment of ratings for upgrades to the Phase I/II HVDC Transmission Facilities; and

(C) the establishment of any changes to existing ratings for the Phase I/II HVDC Transmission Facilities in effect as of the Effective Date.

To the extent there is any disagreement between the ISO and any Asset Owner concerning Rating Procedures or the rating of the Phase I/II HVDC Transmission Facilities owned by such Asset Owner, such disagreement shall be the subject of good faith negotiations between the applicable Asset Owners and the ISO, provided that; (x) the applicable Asset Owner's position concerning such Rating Procedures or Phase I/II HVDC Transmission Facility ratings shall govern until the applicable Asset Owners and the ISO agree on a resolution to such disagreement; and (y) nothing in this Section 3.06(a)(v) shall limit the rights of the ISO or of any Asset Owner to submit a filing under Section 206 of the Federal Power Act with respect to a Phase I/II HVDC Transmission Facility ratings or Rating Procedures. During any collaboration or discussions concerning Phase I/II HVDC Transmission Facility ratings, the Asset Owners shall continue to provide the ISO with up-to-date ratings information in accordance with the applicable Rating Procedures.

(vi) undertake operating actions in accordance with any tariffs or rate schedules approved or accepted by FERC;

(vii) provide the ISO with the right to use a level of communications capacity (and maintain the equipment associated with this capacity in accordance with Good Utility Practice) on its telecommunication assets and equipment attached to or associated with Phase I/II HVDC Transmission Facilities consistent with practice prior to the Effective Date in order to supply reliability-related data including meter, voice and data communications; continue to receive and send telemetry to and from the Phase I/II HVDC Transmission Facilities; provide for

the receipt of such information from the Phase I/II HVDC Transmission Facilities substations, and provide metering data and/or telemetry to the ISO , as reasonably necessary for the ISO to perform its obligations under this Agreement and the ISO OATT; provided that each Asset Owner shall have the unfettered right to use communications capacity on its telecommunication assets and equipment attached to or associated with Phase I/II HVDC Transmission Facilities for other business purposes to the extent such capacity is not being used by the ISO as of the Effective Date;

(viii) notify the ISO prior to making planned changes to the operational status of the Asset Owner's Phase I/II HVDC Transmission Facilities and provide information on the operational status of Phase I/II HVDC Transmission Facilities consistent with practice prior to the Effective Date. If unplanned changes or emergencies occur which impact the operational status of the Asset Owner's Phase I/II HVDC Transmission Facilities, provide information to the ISO on the operational status of Phase I/II HVDC Transmission Facilities consistent with practice prior to the Effective Date;

(ix) provide for or arrange to provide the ISO with revenue metering data; and

(x) in all material respects, comply with all applicable laws, regulations, orders, license requirements, and with all applicable NERC/NPCC Requirements, Presidential Permits, export authorization, other applicable reliability organizations' local reliability rules, and all applicable requirements of federal or state laws or regulatory authorities.

(xi) Nothing in this Agreement shall modify or alter the obligations of the Asset Owners under the Grandfathered Facility Agreements, including the obligations of the Asset Owners to the IRH under the Support Agreements.

3.05 Reserved Rights of the Asset Owners.

(a) Notwithstanding any other provision of this Agreement to the contrary, each Asset Owner shall retain all of the rights set forth in this Section 3.05; provided, however, that such rights shall be exercised in a manner consistent with applicable NERC/NPCC Requirements and applicable regulatory standards. This Section 3.05 is not intended to reduce or limit any other rights of the Asset Owners as a signatory to this Agreement or under the ISO OATT.

(i) Nothing in this Agreement shall restrict any rights: (A) of each Asset Owner that is a party to a merger, acquisition or other restructuring transaction to make filings under Section 205 of the Federal Power Act with respect to the Asset Owner's reallocation or redistribution of revenues or the assignment of the Asset Owner's rights or obligations, to the extent the Federal Power Act requires such filings; or (B) of the Asset Owners to terminate their participation in this Agreement pursuant to Article X of this Agreement.

(ii) Except as expressly provided in the grant of Operating Authority to the ISO, each Asset Owner retains all rights that it otherwise has incident to its ownership of, and legal and equitable title to, its assets, including its Phase I/II HVDC Transmission Facilities and all land and land rights, including the right to build, acquire, sell, lease, merge, dispose of, retire, use as security, or otherwise transfer or convey all or any part of its assets, subject to the Asset Owner's compliance with Section 2.05 of this Agreement. Subject to Article X, the Asset Owners may, directly or indirectly, by merger, sale, conveyance, consolidation, recapitalization, operation of law, or otherwise, transfer all or any portion of the Asset Owners' Phase I/II HVDC Transmission Facilities subject to this Agreement but only if such transferee or successors shall agree in writing to be bound by terms of this Agreement to the extent that, upon such event, the Phase I/II HVDC Transmission Facilities remain within the New England Transmission System and service over the Phase I/II HVDC Transmission Facilities will continue to be provided under the ISO Tariff.

(iii) The responsibilities granted to the ISO under this Agreement shall not affect the rights of the Asset Owners to modify or expand its Phase I/II HVDC Transmission Facilities, nor confer upon the ISO any authority to direct the Asset Owners to modify or expand its Phase I/II HVDC Transmission Facilities, except as specified in Section 3.08 hereof.

(iv) Each Asset Owner shall have the right to adopt and implement, consistent with Good Utility Practice, procedures and to take such actions it deems necessary to protect its facilities from physical damage or to prevent injury or damage to persons or property.

(v) Each Asset Owner retains the right to take whatever actions, consistent with Good Utility Practice, it deems necessary to fulfill its obligations under applicable Law.

(vi) Nothing in this Agreement shall be construed as limiting in any way the rights of any Asset Owner to make any filing with any applicable state or local or federal regulatory authority.

(vii) Subject to Section 2.04, each Asset Owner shall retain the right to enter into Interconnection Agreements with transmission owners, generators and other entities connecting with such Asset Owner's Phase I/II HVDC Transmission Facilities and to file such agreements for approval or acceptance with FERC.

(viii) Each Asset Owner shall retain all rights under Section 205 of the Federal Power Act with respect to the Phase I/II HVDC Transmission Facilities and all rights under Section 206 of the Federal Power Act, provided that Asset Owner Section 205 filings related to Large Generator Interconnection Agreements shall be subject to Section 2.04 of this Agreement and provided further that nothing in this Section 3.05 shall impair the ISO's other legal rights and obligations as set forth in Section 3.11 of this Agreement.

(ix) Each Asset Owner shall have the right to retain one or more subcontractors to perform any or all of its obligations under this Agreement. The retention of a subcontractor pursuant to the terms of this Section 3.07 shall not relieve the Asset Owner of its primary liability for the performance of any of its obligations under this Agreement.

(b) Any and all other rights and responsibilities of each Asset Owner related to the ownership or operation of its Phase I/II HVDC Transmission Facilities not expressly assigned to the ISO under this Agreement will remain with the Asset Owners.

(c) Nothing in this HVDC TOA shall be deemed to impair or infringe on any rights or obligations of the Asset Owners under the Federal Power Act and FERC's rules and regulations thereunder, provided that any such rights are not inconsistent with the express terms of this Agreement.

3.06 Repair and Maintenance of Phase I/II HVDC Transmission Facilities.

(a) Planning, Scheduling, and Approval of Phase I/II HVDC Transmission Facility Outages.

(i) Each Asset Owner shall submit to the ISO long-term plans for Phase I/II HVDC Transmission Facility outages, shall submit to the ISO schedules for Phase I/II HVDC Transmission Facility outages, and shall obtain the ISO's approval for Phase I/II HVDC Transmission Facility outages in accordance with, and to the extent required by the ISO Tariff, applicable Operating Procedures, applicable Additional HVDC Procedures, and NERC/NPCC requirements, provided that the Asset Owners shall coordinate planned outage schedules with Hydro-Québec TransÉnergie in accordance with the Asset Owners Agreement and the ISO shall determine whether to approve such outages in coordination with Hydro-Québec TransÉnergie in accordance with the Interconnection Operators Agreement.

(ii) Notwithstanding any of the foregoing, nothing in this Section 3.06 shall be construed to require the Asset Owners to reschedule an outage of Phase I/II HVDC Transmission Facilities or to require the Asset Owners to refrain from initiating switching and tagging procedures to take Phase I/II HVDC Transmission Facilities out of service or place it back into service to the extent the Asset Owners determines that such outage or actions are necessary to prevent injury or damage to persons or property or to protect its facilities from physical damage, in accordance with Section 3.07(a)(v) of this Agreement.

(b) The ISO shall address its scheduling and coordination of Phase I/II HVDC Transmission Facility outages as part of any reports on the ISO's overall outage coordination efforts prepared pursuant to the TOA or the ISO Tariff.

(c) Market Monitoring of Outage Scheduling. The Market Monitoring Unit of the ISO shall monitor the outage scheduling activities of the Asset Owners. The Market Monitoring Unit of the ISO shall have the right to request that the Asset Owners provide information to the

Market Monitoring Unit concerning the Asset Owners' scheduling of Phase I/II HVDC Transmission Facility outages, including the rescheduling or cancellation of any planned, scheduled or approved HVDC Transmission Facility outage, and the Asset Owners shall provide such information to the Market Monitoring Unit in accordance with Section 11.07(c) of this Agreement.

(d) Damage or Destruction of Phase I/II HVDC Transmission Facilities. If, at any time during the Term, any of the Phase I/II HVDC Transmission Facilities are damaged or destroyed, then, the applicable Asset Owner shall determine, in its sole discretion, consistent with Good Utility Practice and applicable Law, whether or not (and if so, in what manner) to restore or cause the restoration of such damaged or destroyed Phase I/II HVDC Transmission Facility to substantially the same condition, character or use as existed before the damage or destruction, if at all, provided that the Asset Owners shall consult with the ISO prior to making such determination and shall comply with the requirements specified in Section 2.05.

3.07 Planning.

(a) The Asset Owners will participate in the ISO Planning Process for reliability purposes and to perform studies of the impact of regional projects on the Phase I/II HVDC Transmission Facilities. As requested by the ISO, such support may include conducting any necessary studies, including system impact studies and facilities studies for the Asset Owner's Phase I/II HVDC Transmission Facilities, assisting in the performance of such studies or any additional studies, and supplying any information and data reasonably required to prepare an ISO System Plan or to perform transmission enhancement and expansion studies.

(b) Each Asset Owner shall make reasonable efforts to provide information and support in response to the ISO's requests within the ISO's requested time frames and shall comply with all deadlines set forth in the ISO Planning Process, as specified in the ISO OATT.

(c) Each Asset Owner shall comply with the ISO's Planning Procedures, consistent with Section 3.07(a) above (which are supplemental to the ISO Planning Process, as specified in the ISO OATT), provided that any modifications to existing Planning Procedures and any new Planning Procedures applicable to studies and planning functions affecting the Phase I/II HVDC Transmission Facilities shall be developed in coordination with the Asset Owners and other stakeholders. In the event that the ISO and the applicable Asset Owner(s) disagree about modifications to the portions of Planning Procedures applicable to studies and planning functions affecting the Phase I/II HVDC Transmission Facilities or any new Planning Procedures applicable to studies and planning functions affecting the Phase I/II HVDC Transmission Facilities, the affected Asset Owner(s) will have the opportunity to submit the dispute for resolution in accordance with the dispute resolution provisions set forth in Section 11.12 herein. Pending such resolution, the ISO shall have the authority to implement any such new Planning Procedures or modified Planning Procedures.

3.08 Asset Owner Obligations for Reliability Upgrades.

(a) Subject to the satisfaction of the conditions specified in Section 3.08(c) below, and the restrictions specified in Section 3.08(d) below, and to the requirements of applicable law,

government regulations and approvals, including requirements to obtain any necessary federal, state or local siting, construction and operating permits; the availability of required financing; the ability to acquire necessary rights-of-way; the ability to obtain any necessary participation and cooperation in facilitating such upgrades by Hydro-Québec TransÉnergie, and satisfaction of the other conditions set forth in this Section 3.08, each Asset Owner shall have the obligation to own and construct (or cause to be constructed) any upgrade to the Phase I/II HVDC Transmission Facilities that is necessary to preserve existing levels of reliability of the Phase I/II HVDC Transmission Facilities and that is included in the approved ISO System Plan. The Asset Owner may enter into appropriate contracts to fulfill any obligations associated with the ownership and construction of such upgrades. Nothing in this Section 3.08 shall limit the rights of such Asset Owners under applicable law, including rights under this Agreement or any other agreement relating to the Phase I/II HVDC Transmission Facilities, to retire its Phase I/II HVDC Transmission Facilities, subject to the Asset Owner's compliance with Section 2.05 of this Agreement. Each Party shall use Commercially Reasonable Efforts to secure, as necessary and in accordance with the Asset Owners Agreement and Interconnection Operators Agreement, participation and cooperation in facilitating such upgrades by Hydro-Québec TransÉnergie of the Canadian facilities interconnecting with the Phase I/II HVDC Transmission Facilities.

(b) Each Asset Owner subject to Section 3.08(a), shall have the right to own and construct (or cause to be constructed) any upgrade connected to its existing Phase I/II HVDC Transmission Facilities.

(c) Each Asset Owner shall not have an obligation to build pursuant to Section 3.08(a) above: (1) if such Asset Owner is unable to obtain, under the circumstances described in Section 3.08(d) below, the agreement of IRHs and all necessary parties under the Grandfathered Facility Agreements to provide the Asset Owner with full cost recovery for capital investments and associated expenses incurred over the life of any upgrades to be constructed in meeting such Asset Owner's obligation under Section 3.08(a) and (2) if the Asset Owner is not able to obtain all necessary regulatory approvals associated with such cost recovery. Notwithstanding the foregoing, each Asset Owner shall have the obligation to undertake Commercially Reasonable Efforts to pursue alternative means of obtaining such cost recovery for periods following expiration or termination of the Support Agreements and, if successful in those efforts, to build upgrades pursuant to Section 3.08(a) above.

(d) Each Asset Owner shall not have an obligation to build pursuant to Section 3.08(a) above if:

- (i) with respect to such an upgrade to a Phase I or Phase II HVDC Transmission Facility, the alterations, modifications and additions to the Phase I or Phase II equipment would diminish the value or utility or impair the condition of the Phase I or Phase II facilities below the value, utility or condition thereof immediately prior to such alterations, modifications or additions
- (ii) with respect to such an upgrade to a Phase I HVDC Transmission Facility

- (A) for purposes of VETCO, indebtedness necessary for additions, repairs and improvements to the project would exceed the lesser of the cost or fair market value of additions, repairs and improvements or any associated lien is not approved by the Mortgagee and Noteholders; or
- (B) for purposes of VETCO, unsecured indebtedness necessary for the project would mature more than one year after the date of issuance thereof, or that together with any secured indebtedness or lease obligations, exceeds \$5,000,000;
- (C) for purposes of VETCO, secured indebtedness or lease obligations not subordinate to the Phase I Note obligations, or not approved by the Mortgagee and Noteholders, or that, together with any unsecured indebtedness, exceeds \$5,000,000;
- (D) constructing the project would cause a Phase I Asset Owner to maintain an equity capitalization other than the level of ratio of equity investment to total capital that existed during the first year of Phase I operations ;
- (E) constructing the project would require the Asset Owners to make equity investments in excess of the amount stipulated in Section 1 of the applicable Support Agreements; or
- (F) constructing the project would require the Asset Owners to obtain approval from the Phase I Advisory Committee pursuant to the Phase I Support Agreements, and the Phase I Advisory Committee does not provide such approval.

provided, however, that each Phase I Asset Owner will use Commercially Reasonable Efforts to obtain debt or equity funding for such an upgrade that can be obtained without being subject to the limitations of (A) through (F) above, and to obtain debt or equity funding for the project that involves the least burdensome limitations;

- (iii) with respect to such an upgrade to a Phase II HVDC Transmission Facility:
 - (A) constructing the project would require the Asset Owners to obtain approval from the Phase II Advisory Committee pursuant to the Phase II Support Agreements, and the Phase II Advisory Committee does not provide such approval.

- (B) the project would require a Phase II Asset Owner to incur indebtedness or liens or to issue any new guarantees except as permitted in the Grandfathered Facility Agreements; or
 - (C) constructing the project would prevent a Phase II Asset Owner, in accordance with the Phase II Support Agreements and the Phase II Equity Funding Agreements, from maintaining an equity capitalization of greater than 40 percent of its total capital during the period that the Asset Owner has outstanding debt in its capital structure.
- (iv) constructing such an upgrade would cause any Asset Owner to maintain an equity capitalization or take other actions with respect to financing of the project that would violate applicable Law.

3.09 Grandfathered Facility Agreements.

(a) Nothing in this Agreement shall require the modification or abrogation of Grandfathered Facility Agreements as listed in Schedule 3.09, and such Grandfathered Facility Agreements will continue to be effective for the terms of such agreements. The procedures set forth in Section 10.05 shall govern the relationship between the Parties' exercise of their rights and obligations under this Agreement and the terms of such Grandfathered Facility Agreements.

(b) All payments due to the Asset Owners under Grandfathered Facility Agreements shall continue to be invoiced and collected by the Asset Owners in accordance with the terms of those agreements and shall not be invoiced or collected by the ISO. Notwithstanding the foregoing, each Asset Owner and the ISO may enter into separate agreements such that the ISO provides invoicing services for such payments.

(c) Nothing in this Agreement shall alter the standards, procedures or requirements applicable to the modification of any Grandfathered Facility Agreement. The ISO shall have no right to amend any Grandfathered Facility Agreements or direct the Asset Owners to amend any Grandfathered Facility Agreement.

3.10 Subcontractors.

The Asset Owners acknowledge and agree that, subject to the terms set forth herein, including Section 6.07, the ISO has the right to retain one or more subcontractors to perform any or all of its obligations under this Agreement. The retention of a subcontractor pursuant to the terms of this Section 3.11 shall not relieve the ISO of its primary liability for the performance of any of its obligations under this Agreement.

3.11 No Impairment of the ISO's Other Legal Rights and Obligations. Nothing in this HVDC TOA shall be deemed to impair or infringe on any other rights or obligations of the ISO under the Federal Power Act (including Section 206 of the Federal Power Act) and FERC's rules and regulations thereunder, including the ISO's rights and obligations to submit filings to recover its administrative, capital, and other costs, provided that any such rights are not

inconsistent with the express terms of this Agreement. During the Term of this HVDC TOA, the ISO shall:

(a) have the rights and obligations to design, develop, operate, maintain and administer the New England Markets and congestion pricing mechanisms (including the exclusive right to make Section 205 filings relating to the Market Rules), and

(b) have the right to undertake actions relating to congestion pricing and management in accordance with this HVDC TOA, Market Rules, and applicable FERC orders.

Nothing in this HVDC TOA shall be deemed to impair or infringe on such rights and obligations. Nothing in this HVDC TOA shall be deemed to alter or affect the allocation of Section 205 filing rights set forth in the TOA or any other operating agreement to which the ISO is a party.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF THE PARTIES

4.01 Representations and Warranties of the Asset Owners.

As of the time of execution of this Agreement, each Asset Owner represents and warrants to the ISO as follows:

(a) Organization. It is duly organized, validly existing and in good standing under the laws of the state of its organization.

(b) Authorization. It has all requisite power and authority to execute, deliver and perform this Agreement; the execution, delivery and performance by the Asset Owner of this Agreement have been duly authorized by all necessary and appropriate action on the part of the Asset Owner; and this Agreement has been duly and validly executed and delivered by the Asset Owner and constitutes the legal, valid and binding obligations of the Asset Owner, enforceable against the Asset Owner in accordance with its terms.

(c) No Breach. The execution, delivery and performance by the Asset Owner of this Agreement will not result in a breach of any terms, provisions or conditions of any agreement to which the Asset Owner is a party which breach has a reasonable likelihood of materially and adversely affecting the Asset Owner's performance under this Agreement.

(d) Phase I/II HVDC Transmission Facilities. The Phase I/II HVDC Transmission Facilities listed by the Asset Owner in Schedule 2.01(a) constitute all Phase I/II HVDC Transmission Facilities owned by the Asset Owner in New England that are subject to this Agreement.

(e) NO WARRANTY REGARDING THE ASSET OWNER'S HVDC TRANSMISSION FACILITIES. IN CONNECTION WITH THE ASSET OWNER'S GRANT OF OPERATING AUTHORITY TO THE ISO OVER SUCH ASSET OWNER'S PHASE I/II HVDC TRANSMISSION FACILITIES PURSUANT TO THE TERMS OF THIS AGREEMENT, SUCH ASSET OWNER'S PHASE I/II HVDC TRANSMISSION FACILITIES

ARE BEING MADE AVAILABLE PURSUANT TO THIS AGREEMENT TO THE ISO “AS IS, WHERE IS,” AND SUCH ASSET OWNER IS NOT MAKING ANY REPRESENTATIONS OR WARRANTIES, WRITTEN OR ORAL, STATUTORY, EXPRESS OR IMPLIED, CONCERNING SUCH HVDC TRANSMISSION FACILITIES, INCLUDING, IN PARTICULAR, ANY WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE, ALL OF WHICH ARE HEREBY EXPRESSLY EXCLUDED AND DISCLAIMED. THE FOREGOING PROVISION IS NOT INTENDED TO LIMIT OR CONDITION ANY OBLIGATIONS OF THE ASSET OWNER EXPRESSLY PROVIDED FOR ELSEWHERE IN THIS AGREEMENT.

4.02 Representations and Warranties of the ISO.

As of the time of execution of this Agreement, the ISO represents and warrants to each Asset Owner as follows:

(a) Organization. It is duly organized, validly existing and in good standing under the laws of the state of its organization.

(b) Authorization. It has all requisite power and authority to execute, deliver and perform this Agreement; the execution, delivery and performance by the ISO of this Agreement have been duly authorized by all necessary and appropriate action on the part of the ISO; and this Agreement has been duly and validly executed and delivered by the ISO and constitutes the legal, valid and binding obligation of the ISO, enforceable against the ISO in accordance with its terms.

(c) No Breach. The execution, delivery and performance by the ISO of this Agreement will not result in a breach of any of the terms, provisions or conditions of any agreement to which the ISO is a party which breach has a reasonable likelihood of materially and adversely affecting the ISO’s performance under this Agreement.

ARTICLE V

COVENANTS OF THE ASSET OWNERS

5.01 Covenants of Each Asset Owner.

Each Asset Owner covenants and agrees that during (i) the Term, or (ii) the period expressly specified herein, as applicable, the Asset Owner shall comply with all covenants and provisions of this Article V, except to the extent the ISO and the Asset Owner pursuant to Section 11.04(a) consent in writing to waive such covenants or performance is excused pursuant to Section 11.11(b):

5.02 Financial Statements and Filings.

If the Asset Owner’s financial statements, permit applications or any other filing with any Governmental Authority are publicly available, the Asset Owner shall, upon request by the ISO, provide the ISO information sufficient to allow the ISO to locate such financial statements,

permit applications or other filings, including the date and place of the filing of the relevant documents.

5.03 Expenses.

Except to the extent specifically provided herein, all costs and expenses incurred by each Asset Owner in connection with the negotiation of this Agreement shall be borne by the Asset Owner; provided that nothing herein shall prevent the Asset Owner from recovering such expenses in accordance with applicable law.

5.04 Consents and Approvals.

(a) Each Asset Owner shall exercise Commercially Reasonable Efforts to promptly prepare and file all necessary documentation to effect all necessary applications, notices, petitions, filings and other documents, and shall exercise Commercially Reasonable Efforts to obtain (and will cooperate with each other in obtaining) any consent, acquiescence, authorization, order or approval of, or any exemption or nonopposition by, any Governmental Authority required to be obtained or made by the Asset Owner in connection with this Agreement or the taking of any action contemplated by this Agreement.

(b) Each Asset Owner shall exercise Commercially Reasonable Efforts to obtain consents of all other third parties necessary to the performance of this Agreement by the Asset Owner. The Asset Owner shall promptly notify the ISO of any failure to obtain any such consents and, if requested by the ISO, shall provide copies of all such consents obtained by the Asset Owner.

(c) Nothing in this Section 5.04 shall require an Asset Owner to pay any sums to a third party, including any Governmental Authority, excluding filing fees paid to any Governmental Authority in connection with a filing necessary or appropriate to further action.

5.05 Notice and Cure.

Each Asset Owner shall notify the ISO in writing of, and contemporaneously provide the ISO with true and complete copies of any and all information or documents relating to, any event, transaction or circumstance, as soon as practicable after it becomes Known to the Asset Owner, that causes or shall cause any covenant or agreement of the Asset Owner under this Agreement to be breached or that renders or shall render untrue any representation or warranty of the Asset Owner contained in this Agreement as if the same were made on or as of the date of such event, transaction or circumstance. The Asset Owner shall use all Commercially Reasonable Efforts to cure such event, transaction or circumstance as soon as practicable after it becomes Known to the Asset Owner. No notice given pursuant to this Section 5.05 shall have any effect on the representations, warranties, covenants or agreements contained in this Agreement for purposes of determining satisfaction of any condition contained herein or shall in any way limit the ISO's right to seek indemnity under Article IX.

ARTICLE VI

COVENANTS OF THE ISO

6.01 Covenants of the ISO.

The ISO covenants and agrees that during (i) the Term, or (ii) the period expressly specified herein, as applicable, the ISO shall comply with all covenants and provisions of this Article VI, except to the extent the Parties consent in writing to a waiver of such covenants or performance is excused pursuant to Section 11.11(b).

6.02 Financial Statements and Filings.

(a) To the extent not provided to stakeholders generally or made publicly available by the ISO, the ISO shall make available to each Asset Owner: (i) quarterly unaudited financial statements within sixty (60) days after each quarter end and (ii) annual audited financial statements within one hundred twenty (120) days after each fiscal year end. In each instance, the financial statements made available by the ISO pursuant to (i) and (ii) above shall be prepared in accordance with Generally Accepted Accounting Principles and shall be true and correct in all material respects.

(b) If financial statements, permit applications or any other filing with any Governmental Authority are publicly available, the ISO shall, upon request by an Asset Owner, provide the Asset Owner information sufficient to allow the Asset Owner to locate such financial statements, permit applications or other filings including the date and place of the filing of the relevant documents.

6.03 Expenses.

Except to the extent specifically provided herein, all costs and expenses incurred by the ISO in connection with the negotiation of this Agreement shall be borne by the ISO; provided that nothing herein shall prevent the ISO from recovering such expenses in accordance with applicable law.

6.04 Consents and Approvals.

(a) The ISO shall exercise Commercially Reasonable Efforts to promptly prepare and file all necessary documentation to effect all necessary applications, notices, petitions, filings and other documents, and shall exercise Commercially Reasonable Efforts to obtain (and will cooperate with the Asset Owner in obtaining) any consent, acquiescence, authorization, order or approval of, or any exemption or nonopposition by, any Governmental Authority required to be obtained or made by the ISO in connection with this Agreement or the taking of any action contemplated by this Agreement.

(b) The ISO shall exercise Commercially Reasonable Efforts to obtain consents of all other third parties necessary to performance of this Agreement by the ISO. The ISO shall promptly notify the Asset Owner of any failure or anticipated failure to obtain any such consents

and, if requested by such Asset Owner, shall provide copies of all such consents obtained by the ISO.

(c) Nothing in this Section 6.04 shall require the ISO to pay any sums to a third party, including any Governmental Authority, excluding filing fees paid to any Governmental Authority in connection with a filing necessary or appropriate to discharge its obligations hereunder.

6.05 Notice and Cure.

The ISO shall notify each Asset Owner in writing of, and contemporaneously shall provide the Asset Owner with true and complete copies of any and all information or documents relating to, any event, transaction or circumstance, as soon as practicable after it becomes Known to the ISO, that causes or shall cause any covenant or agreement of the ISO under this Agreement to be breached or that renders or shall render untrue any representation or warranty of the ISO contained in this Agreement as if the same were made on or as of the date of such event, transaction or circumstance. The ISO shall use all Commercially Reasonable Efforts to cure such event, transaction or circumstance as soon as practicable after it becomes Known to the ISO. No notice given pursuant to this Section 6.05 shall have any effect on the representations, warranties, covenants or agreements contained in this Agreement for purposes of determining satisfaction of any condition contained herein or shall in any way limit any right of the Asset Owner to seek indemnity under Article IX.

6.06 The ISO Line of Business; Non-Profit-Status.

The ISO shall not be operated on a for-profit basis. This provision is not intended to require the ISO to maintain its status as an entity not subject to federal or state taxes, to require the ISO to remain a Delaware not-for-profit corporation or to assure that in any particular year that the ISO's revenues do not exceed its expenses. The ISO shall not pay dividends or use its net earnings other than to offset RTO operating and capital expenses and maintain reasonable reserves.

ARTICLE VII

TAX MATTERS

7.01 Responsibility for Asset Owner Taxes.

Each Asset Owner shall prepare and file all Tax Returns and other filings related to its Transmission Business and Phase I/II HVDC Transmission Facilities and pay any Tax liabilities related to its Transmission Business and Phase I/II HVDC Transmission Facilities. The ISO shall not be responsible for, or required to file, any Tax Returns or other reports for the Asset Owner and shall have no liability for any Taxes related to the Asset Owner's Transmission Business or Phase I/II HVDC Transmission Facilities. No Asset Owner shall be responsible for, or required to file, any Tax Returns or other reports for any other Asset Owner and shall have no liability for any Taxes related to any other Asset Owner's Transmission Business or Phase I/II HVDC Transmission Facilities. The ISO and the Asset Owners hereby agree that, for tax

purposes, the Asset Owner's Phase I/II HVDC Transmission Facilities shall be deemed to be owned by such Asset Owner.

7.02 Responsibility for ISO Taxes.

The ISO shall prepare and file all Tax Returns and other filings related to its operations and pay any Tax liabilities related to its operations. No Asset Owner shall be responsible for, or required to, file any Tax Returns or other reports for the ISO and shall have no liability for any Taxes related to the ISO's operations.

ARTICLE VIII

RELIANCE; SURVIVAL OF AGREEMENTS

8.01 Reliance; Survival of Agreements.

Notwithstanding any right of any Party (whether or not exercised) to investigate the accuracy of any of the matters subject to indemnification by any other Party contained in this Agreement, each of the Parties has the right to rely fully upon the representations, warranties, covenants and agreements of each other Party contained in this Agreement. The provisions of Sections 11.01, 11.07, 11.11 and 11.15 and Articles VII and IX shall survive the termination of this Agreement.

ARTICLE IX

INDEMNIFICATION; INSURANCE; ASSUMPTION OF LIABILITIES

9.01 Indemnification.

(a) Subject to Section 9.06(b) through 9.06(e), (i) each Asset Owner shall severally release, indemnify, and hold harmless the ISO from and against any and all damages, losses, liabilities, obligations, claims, demands, suits, proceedings, recoveries, judgments, settlements, costs and expenses, court costs, attorney fees, and all other obligations (each, an "Indemnifiable Loss") asserted against the ISO by a Person that is not a Party to this Agreement (a "Third Party") including but not limited to any action by an Asset Owner employee, to the extent alleged to result from, arise out of or be related to such Asset Owner's acts or omissions that give rise to such Indemnifiable Loss; and (ii) the ISO shall release, indemnify, and hold harmless each Asset Owner from and against any Indemnifiable Loss asserted against such Asset Owner by a Third Party, including but not limited to any action by an ISO employee, to the extent alleged to result from, arise out of or be related to the ISO's acts or omissions that give rise to such Indemnifiable Loss, including an ISO directive and/or instructions to a Party.

(b) The indemnification by the ISO set forth in Section 9.01(a)(ii) above shall be limited to the extent that the liability of a Asset Owner seeking indemnification would be limited by any applicable Law and arises from a claim by (i) such Asset Owner in such Asset Owner's role as a Transmission Customer or (ii) a customer of such Asset Owner.

(c) Each Asset Owner shall severally release, indemnify, and hold harmless the ISO from and against any Environmental Damages that the ISO becomes subject to as a result of its

exercise of Operating Authority over such Asset Owner's Phase I/II HVDC Transmission Facilities, to the extent such Environmental Damages arose prior to the Effective Date or did not result from the ISO's acts or omissions.

(d) Each Asset Owner and/or the ISO each hereby (i) waives any defense or immunity it might otherwise have under applicable workers' compensation laws or any other statute, or judicial decision, disallowing or limiting such indemnification and (ii) consents to a cause of action for indemnity and/or contribution in connection with such indemnification.

9.02 Notice of Proceedings.

Each party entitled to receive indemnification under this Agreement (each, an "Indemnitee") shall promptly notify the party who holds an indemnification obligation hereunder (in each case, the "Indemnifying Party") of any Indemnifiable Loss in respect of which such Indemnitee is or may be entitled to indemnification pursuant to Section 9.01. Such notice shall be given as soon as reasonably practicable after the Indemnitee becomes aware of the Indemnifiable Loss and that any such claim or proceeding may give rise to an indemnification obligation hereunder. Such notice shall describe the nature of the loss or proceeding in reasonable detail and shall indicate, if practicable, the estimated amount of the Indemnifiable Loss that has been or may be sustained by the Indemnitee. The delay or failure of such Indemnitee to provide the notice required pursuant to this Section 9.02 shall not release the Indemnifying Party from any indemnification obligation which it may have to such Indemnitee except (a) to the extent that such failure or delay materially and adversely affects the Indemnifying Party's ability to defend such action or increases the amount of the Indemnifiable Loss, and (b) that the Indemnifying Party shall not be liable for any costs or expenses of the Indemnitee in the defense of the claim, suit, action or proceeding during such period of failure or delay.

9.03 Defense of Claims.

(a) Unless and until the Indemnifying Party (i) acknowledges in writing its obligation within ten (10) calendar days of the Indemnitee's notice of a claim, suit, action or proceeding, and (ii) assumes control of the defense of such claim, suit, action or proceeding in accordance with Section 9.03(b), the Indemnitee shall have the right, but not the obligation, to contest, defend and litigate, with counsel of its own selection, any claim, action, suit or proceeding by any third party alleged or asserted against such Indemnitee in respect of, resulting from, related to or arising out of any matter for which it is entitled to be indemnified hereunder, and the reasonable costs and expenses thereof shall be subject to the indemnification obligations of the Indemnifying Party hereunder.

(b) Upon acknowledging in writing its obligation to indemnify an Indemnitee to the extent required pursuant to this Article IX and paying all reasonable costs incurred by such Indemnitee in its defense, including reasonable attorney's fees, the Indemnifying Party shall be entitled, at its option (subject to Section 9.03(d)), to assume and control the defense of such claim, action, suit or proceeding at its expense with counsel of its selection, subject to the prior reasonable approval of the Indemnitee.

(c) Neither the Indemnifying Party nor the Indemnitee shall be entitled to settle or compromise any such claim, action, suit or proceeding without the prior written consent of the other; provided, however, that such consent shall not be unreasonably withheld.

(d) Following the acknowledgment of the indemnification and the assumption of the defense by the Indemnifying Party pursuant to Section 9.03(b), the Indemnitee shall have the right to employ its own counsel and such counsel may participate in such action, but the fees and expenses of such counsel shall be at the expense of such Indemnitee, when and as incurred, unless: (i) the employment of counsel by such Indemnitee has been authorized in writing by the Indemnifying Party; (ii) the Indemnitee shall have reasonably concluded and specifically notified the Indemnifying Party that there may be a conflict of interest between the Indemnifying Party and the Indemnitee in the conduct of the defense of such action; (iii) the Indemnifying Party shall not in fact have employed independent counsel reasonably satisfactory to the Indemnitee to assume the defense of such action and shall have been so notified by the Indemnitee; (iv) the Indemnitee shall have reasonably concluded and specifically notified the Indemnifying Party that there may be specific defenses available to it which are different from or additional to those available to the Indemnifying Party or that such claim, action, suit or proceeding involves or could have a material adverse effect upon the Indemnitee beyond the scope of this Agreement; or (v) the Indemnifying Party shall not have taken reasonable steps necessary to defend diligently such action within twenty (20) calendar days after receiving notice from the Indemnitee that the Indemnitee believes the Indemnifying Party has failed to take such steps. If clause (ii), (iii), (iv) or (v) of the preceding sentence shall be applicable, then counsel for the Indemnitee shall have the right to direct the defense of such claim, action, suit or proceeding on behalf of the Indemnitee and the reasonable fees and disbursements of such counsel shall constitute indemnifiable legal or other expenses hereunder.

(e) If the amount of any Indemnifiable Loss incurred by an Indemnitee, at any time subsequent to the making of an indemnity payment by an Indemnifying Party in respect thereof, is reduced by recovery, settlement or otherwise under or pursuant to any insurance coverage, or pursuant to any claim, recovery, settlement or payment by or against any other entity, the amount of such reduction, less any costs, expenses or premiums incurred in connection therewith (together with interest thereon from the date of payment thereof at the Prime Rate) shall promptly be repaid by the Indemnitee to the Indemnifying Party. In the event that the claim, demand or suit giving rise to an Indemnifiable Loss is ultimately adjudicated, if a Final Order confirms that the Indemnitee was not entitled to indemnification hereunder, then the amount advanced by the Indemnifying Party in respect of such Indemnifiable Loss (together with interest thereon from the date of payment thereof at the Prime Rate) shall promptly be paid by the Indemnitee to the Indemnifying Party.

9.04 Subrogation.

Upon payment of any indemnification by a party pursuant to this Article IX, the Indemnifying Party, without any further action, shall be subrogated to any and all claims that the Indemnitee may have relating thereto, and such Indemnitee shall at the request and expense of the Indemnifying Party cooperate with the Indemnifying Party and give at the request and expense of the Indemnifying Party such further assurances as are necessary or advisable to enable the Indemnifying Party vigorously to pursue such claims.

9.05 Insurance.

(a) The ISO shall at all times, at its own cost and expense, carry and maintain or cause to be carried and maintained throughout the Term: (i) liability and errors and omissions insurance (including blanket coverage for contractual liability), insuring the ISO against liability for injury or death to persons, damage to property and environmental restoration, (ii) worker's compensation insurance, (iii) property insurance and (iv) directors' and officers' insurance. The amount of the insurance coverages and deductibles shall generally be comparable to other independent system operators or RTOs, taking into consideration the relative size of the ISO and its contractual and tariff liabilities as compared to the other system operators or RTOs administering similar market structures. In assessing the comparable coverages and deductibles, the ISO may rely on the advice of its insurance consultants.

(b) Each Asset Owner will maintain property insurance on its Phase I/II HVDC Transmission Facilities and liability insurance in accordance with good utility practice. Each Asset Owner may self insure such amount to the extent it currently self insures similar policies and amounts.

(c) All insurance required under this Section 9.05 by outside insurers shall be maintained with insurers qualified to insure the obligations or liabilities under this Agreement and having a Best's rating of at least B+ VIII (or an equivalent Best's rating from time to time of B+ VIII), or in the event that from time to time Best's ratings are no longer issued with respect to insurers, a comparable rating by a nationally recognized rating service or such other insurers as may be agreed upon by the Asset Owners and the ISO.

(d) The Asset Owners shall be listed as additional insured parties on the liability and errors and omissions insurance required to be maintained by the ISO and the ISO shall be listed as an additional insured party on the liability insurance maintained by each Asset Owner. Upon execution of this Agreement, and when requested thereafter, each Party shall furnish each other Party with certificates of all such insurance policies setting forth the amounts of coverage, policy numbers, and date of expiration for such insurance in conformity with the requirements of this Agreement.

(e) The insurance policies maintained by the ISO hereunder shall not be canceled, terminated or the terms thereof modified or amended without at least thirty (30) days' prior notice to the Asset Owners.

(f) If any insurance policy required to be maintained by the ISO hereunder shall not be available to the ISO on a commercially reasonable basis (taking into account both terms and premiums), the ISO shall obtain a written report of an independent insurance advisor of recognized national standing, chosen by the Asset Owners and reasonably acceptable to the ISO, confirming in reasonable detail that such insurance policy, in respect of amount or scope of coverage, is not available on a commercially reasonable basis from insurers of recognized standing. During any period with respect to which any insurance policy required by this Agreement is not commercially available, the ISO shall nevertheless maintain insurance that approximates such required insurance policy as closely as commercially practical, to the extent it is available on a commercially reasonable basis from insurers of recognized standing. If any

insurance policy which was previously not held or discontinued because of its commercial unavailability later becomes available on a commercially reasonable basis, the ISO shall obtain or reinstate such insurance.

9.06 Assumption of Liability.

(a) Each Asset Owner shall be severally liable to the ISO, and the ISO shall be liable to each Asset Owner, for losses, liabilities, damages, diminution in value, obligations, claims, proceedings, fines, deficiencies and expenses (collectively, "Losses") caused by such Party's grossly negligent acts or omissions or willful misconduct (including the grossly negligent acts or omissions or willful misconduct of such Party's directors, Affiliates, members, officers, employees, agents, and contractors) in connection with the performance of such Party of its obligations under this Agreement; and (ii) no Party shall be liable to another Party for any incidental, indirect, special, exemplary, punitive or consequential damages, including lost revenues or profits, even if such damages are foreseeable or the damaged Party has advised such Party of the possibility of such damages and regardless of whether any such damages are deemed to result from the failure or inadequacy of any exclusive or other remedy. The foregoing limitations shall not apply to the right of the Parties to seek indemnification under this Agreement in accordance with Section 9.01.

(b) Nothing in this Agreement shall be deemed to affect the right of the ISO to recover its costs due to liability under this Article IX through the ISO Participants Agreement or the ISO Administrative Tariff.

(c) The ISO shall not be liable to any Asset Owner with respect to any damages incurred by such Asset Owner that are directly attributable to the ISO's reliance on facility ratings established by such Asset Owner.

(d) No Asset Owner shall be liable to any other Asset Owner and/or the ISO by reason of this Agreement (whether based on contract, indemnification, warranty, tort, strict liability or otherwise) for: (i) any acts or omissions taken or done in compliance with, or good faith attempts to comply with, the directives and/or instructions of the ISO, except in cases of the gross negligence or willful misconduct of such Asset Owner; and/or (ii) any costs and expenses relating to the operation, repair, maintenance or improvement of any Phase I/II HVDC Transmission Facility of the ISO or any other Asset Owner.

(e) Notwithstanding any of the foregoing, the ISO shall be liable in actual damages for failure to make payments or transfer sums under Section 3.10 of this Agreement if the ISO fails to discharge its obligation to prepare and send bills or to perform its obligations pursuant to Section 3.10 of this Agreement.

ARTICLE X

TERM; DEFAULT, REMEDIES, AND TERMINATION

10.01 Term; Termination Date.

(a) Term and Effective Date.

(i) Term. Subject to the terms set forth in this Section 10.01, the initial term of this Agreement (the "Initial Term") shall commence on the Effective Date and shall continue for a period of five years from the Operations Date. Subject to the terms set forth in this Section 10.01, the Initial Term shall be extended automatically for additional two-year periods (each, an "Additional Term"), provided that, in no event shall the term of this Agreement be extended beyond the term of the Support Agreements. The Asset Owners may withdraw from this Agreement effective at the end of the Initial Term or the end of any Additional Term by providing no less than 180 days' prior notice of such withdrawal to the other Party. Together, the Initial Term and the Additional Term(s), if any, shall constitute the term (the "Term") of this Agreement.

(ii) Effective Date. The "Effective Date" shall be the date on which the ISO and the Asset Owners unanimously agree to place this Agreement and related agreements and documents into effect.

(b) Asset Owner Withdrawal During The Term. Subject to Section 10.01(e), each Asset Owner may withdraw from this Agreement at any time during the Term if any of the following shall have occurred:

(i) upon an ISO event of default in accordance with Section 10.03(a), provided that the Asset Owner shall exercise this right in accordance with Section 10.03(b)(i).

(ii) if a Final Order of FERC, a Final Order of a Federal court or a Federal law sets forth a change in policy stating that: (A) the federal government no longer encourages the participation of transmission owners in RTOs and such Final Order or law affirmatively states that transmission owners participating in an RTO may withdraw therefrom or (B) that the recovery of costs for the Phase I/II HVDC Transmission Facilities will be subject to any change in policy which would prevent an Asset Owner from recovering the full costs of the Phase I/II HVDC Transmission Facilities through the existing support arrangements set forth in the Grandfathered Facility Agreements or otherwise on a regulated cost-of-service basis; provided that withdrawal pursuant to (A) or (B) of this provision shall require notice to the other Party not less than 180 days prior to the Termination Date established pursuant to Section 10.01(e).

(iii) FERC issues an order putting into effect changes to the relative rights and responsibilities of the Asset Owners and the ISO under this Agreement, including changing the scope and definition of Operating Authority, so as to materially adversely affect the interests of the Asset Owner, unless the Asset Owner has agreed to such changes in accordance with Section 11.04; provided that: (A) the Asset Owner affected by such FERC order shall have the right to withdraw pursuant to this provision; (B) withdrawal pursuant to this provision shall require notice to the other Party not less than 180 days prior to the

Termination Date established pursuant to Section 10.01(e); and (C) the Asset Owner providing a notice of withdrawal pursuant to this provision shall be required to rescind such notice if FERC issues a subsequent order prior to the Termination Date so as to eliminate the changes to the relative rights and responsibilities of the Asset Owners and the ISO under this Agreement.

(iv) the withdrawing Asset Owner has entered into an agreement to form or join an ITC in accordance with Attachment M to the ISO OATT which has been accepted for filing by the FERC, provided that withdrawal pursuant to this provision shall be effective concurrent with the effective date of such agreement.

(v) the withdrawing Asset Owner has obtained authorization from the FERC to join another RTO or other similar organization (such as an Independent System Operator) in connection with a merger with or acquisition by another entity other than another Asset Owner.

(vi) if withdrawal of the Asset Owner is authorized in accordance with Section 10.05.

(vii) Remaining Asset Owners. In the event that one or more, but less than all, of the Asset Owners withdraw from this Agreement in accordance with Section 10.01(a) or (b), this Agreement shall terminate with respect to all remaining Asset Owners as of the date any such withdrawal becomes effective

(c) Termination By the ISO. The ISO may terminate its obligations under this Agreement and surrender its Operating Authority over the Phase I/II HVDC Transmission Facilities if any of the following shall have occurred:

(i) (A) the withdrawal of one or more Asset Owners from this Agreement, and, as a result of such withdrawal, the ISO cannot maintain system reliability or administer efficient and competitive markets; or (B) the withdrawal of one or more transmission owners from the TOA, provided that the ISO shall only terminate its obligations under this Agreement if it also terminates its obligations under the TOA;

(ii) FERC issues an order putting into effect material changes in the liability and indemnification protections afforded to the ISO under this Agreement or the ISO OATT, provided that: (A) withdrawal pursuant to this provision shall require notice to the other Party not less than 180 days prior to the Termination Date established pursuant to Section 10.01(e); and (B) the ISO shall be required to rescind such notice if FERC issues a subsequent order prior to the Termination Date so as to eliminate the material changes to such liability and indemnification protections.

(iii) upon an Asset Owner event of default in accordance with Section 10.04(a), provided that the ISO shall exercise this right in accordance with Section 10.04(b)(i).

(iv) FERC issues an order putting into effect an amendment or modification of this Agreement that materially adversely affects the ISO's ability to carry out its responsibilities under this Agreement, unless the ISO has agreed to such changes in accordance with Section 11.04, provided that: (A) withdrawal pursuant to this provision shall require notice to the Asset Owners not less than 180 days prior to the Termination Date established pursuant to Section 10.01(e); and (B) the ISO shall be required to rescind such notice if FERC issues a subsequent order prior to the Termination Date so as to eliminate the material adverse effect to the ISO's ability to carry out its responsibilities under this Agreement

(v) if withdrawal of the ISO is authorized in accordance with Section 10.05.

(d) Actions Prior To Withdrawal or Termination. Upon submission of a written notice of termination or withdrawal by the Asset Owners or the ISO, the Asset Owner submitting such notice shall commence the development of a plan under which Operating Authority shall be transferred from the ISO to another entity. The Termination Date with respect to the Asset Owner or the ISO shall not occur until both: (a) the ISO and the Asset Owner have agreed upon a plan addressing the technical, operational, transmission service, and market issues associated with the transfer of Operating Authority in connection with such termination or withdrawal and such plan has been implemented, provided that: (i) if the Parties are unable to reach agreement on such plan, any affected Party shall have the right to submit the matter to FERC for resolution without additional negotiation under Section 11.12; (ii) with respect to a withdrawal pursuant to Section 10.01(a), the Asset Owner shall be required to remain a Party to this Agreement for no longer than one year after providing notice of withdrawal; and (iii) in the event of a default by the ISO, the Asset Owner may require that the ISO immediately make arrangements for the orderly transfer of the ISO's invoicing and collection functions with respect to Asset Owner, if applicable, prior to the Termination Date in accordance with Section 10.03(b); and (b) all required reliability and regulatory approvals, if any, have been obtained for such withdrawal or termination, including any approvals required pursuant to Section 10.01(e).

(e) Approvals. Notwithstanding any other provision contained herein or in any other document to the contrary, any termination or withdrawal requested under this Section 10.01 shall be effective: (1) unless a party to this Agreement seeking to challenge the request demonstrates that the requested termination or withdrawal is contrary to the public interest under the Mobile-Sierra Doctrine and (ii) subject to the FERC's determination under Section 205 of the Federal Power Act that the termination or withdrawal is just, reasonable and not unduly discriminatory or preferential.

(f) Continuing Obligations. The withdrawing or terminating Party shall have the following continuing obligations following withdrawal from this Agreement

(i) All financial obligations incurred and payments applicable to the time period prior to the Termination Date shall be honored by the terminating or withdrawing Party in accordance with the terms of this Agreement, and each

Party shall remain liable for all obligations arising hereunder prior to the Termination Date.

(ii) The withdrawing Asset Owner shall file a replacement transmission tariff to replace the affected portion of the ISO OATT to the extent a FERC regulation or order requires the Asset Owner (and not the Interconnection Rights Holders with use rights for the Phase I/II HVDC Transmission Facilities) to file such a tariff.

10.02 Release of Operating Authority.

(a) Upon the Termination Date, the ISO's right and obligation to exercise Operating Authority over the Phase I/II HVDC Transmission Facilities of the Asset Owner with whom this Agreement has terminated shall promptly cease, and, in accordance with Section 10.01, the ISO shall be deemed to have released and returned, and the Asset Owner (or its designee) shall have assumed, Operating Authority over the Phase I/II HVDC Transmission Facilities on the Termination Date.

(b) After the Termination Date, the ISO shall take Commercially Reasonable Efforts to assist the terminating Asset Owner or the Asset Owner's designee in resuming performance of the functions comprising Operating Authority.

(c) The expenses associated with any termination under Section 10.01 shall be at the Asset Owner's expense unless (1) the termination is by the ISO pursuant to Section 10.01(d)(ii) or (iii), or (2) pursuant to Section 10.03 in the event of an ISO Default.

10.03 Events of Default of the ISO.

(a) Events of Default of the ISO. Subject to the terms and conditions of this Section 10.03, the occurrence of any of the following events shall constitute an event of default of the ISO ("ISO Default") under this Agreement:

(i) Failure by the ISO to perform any material obligation set forth in this Agreement and continuation of such failure for longer than thirty (30) days after the receipt by the ISO of written notice of such failure from the Asset Owner; provided, however, that if the ISO is diligently pursuing a remedy during such thirty day (30) period, said cure period shall be extended for an additional thirty (30) days or as otherwise agreed by the Asset Owner;

(ii) If there is a dispute between the ISO and the Asset Owner as to whether the ISO has failed to perform a material obligation, the cure period(s) provided in Section 10.03(a)(i) above shall run from the point at which a finding of failure to perform has been made by a Governmental Authority;

(iii) Failure of the ISO to pay when due any other amounts payable to the Asset Owner by the ISO pursuant to this HVDC TOA within thirty (30) days of the due date;

(iv) Any attempt (not including consideration of strategic options or entering into exploratory discussions) by the ISO to transfer an interest in, or assign its obligations under, this Agreement, except as otherwise permitted hereunder;

(v) The exercise of Operating Authority or other responsibilities under this Agreement in a manner that results in a material amount of damage to or the destruction of the Asset Owner's Phase I/II HVDC Transmission Facilities due to the willful misconduct or gross negligence of the ISO or the repeated and persistent exercise by the ISO of its Operating Authority in a manner that subjects the Phase I/II HVDC Transmission Facilities to the significant risk of a material amount of damage, provided that exercise by the ISO of its Operating Authority over the Phase I/II HVDC Transmission Facilities both in accordance with the Operating Procedures and within the ratings established by the Asset Owner for the Phase I/II HVDC Transmission Facilities shall not be considered to subject the Phase I/II HVDC Transmission Facilities to risk of damage and further provided that nothing in this Section 10.03(a)(v) shall be deemed to excuse the ISO from complying with its obligations under this HVDC TOA or to limit the other events of default specified in this Section 10.03(a).

(vi) With respect to the ISO, (A) the filing of any petition in bankruptcy or insolvency, or for reorganization or arrangement under any bankruptcy or insolvency laws, or voluntarily taking advantage of any such laws by answer or otherwise or the commencement of involuntary proceedings under any such laws, (B) assignment by the ISO for the benefit of creditors; or (C) allowance by the ISO of the appointment of a receiver or trustee of all or a material part of its property if such receiver or trustee is not discharged within thirty (30) days after such appointment.

(b) Remedies for Default. If an event of default by the ISO occurs and is continuing, the Asset Owner shall have the right to avail itself of any or all of the following remedies, all of which shall be cumulative and not exclusive:

(i) To terminate this Agreement with respect to such Asset Owner in accordance with Section 10.01(e); provided that if the ISO contests such allegation of an ISO event of default under Section 10.03(a), this Agreement shall remain in effect pending resolution of the dispute, but any applicable notice period shall run during the pendency of the dispute;

(ii) To demand that the ISO shall immediately make arrangements for the orderly transfer of Operating Authority over the Asset Owner's Phase I/II HVDC Transmission Facilities and assist the Asset Owner or the Asset Owner's designee in resuming performance of the functions comprising Operating Authority, provided that: (A) the Asset Owner shall not be liable for the reimbursement of the ISO for any costs and expenses incurred by the ISO in connection therewith; (B) the ISO and the Asset Owner shall agree upon a plan addressing the technical and operational issues associated with such transfer of

Operating Authority, as such plan has been implemented; and (C) if the Parties are unable to reach agreement on such plan, any affected Party shall have the right to submit the matter to FERC for resolution without additional negotiation under Section 11.12, provided that such action shall be consistent with Section 10.01(d);

(iii) To make any payment or perform or comply with any agreement that the ISO shall be obligated to pay, perform or comply with under this Agreement and the amount of reasonable expenses (including attorneys' fees and any other reasonable professionals' fees and expenses) of the Asset Owner incurred in connection with such payment or the performance of or compliance with any such agreement shall be payable by the ISO upon demand;

(iv) To obtain such specific performance and/or an injunction to prevent breaches of this Agreement and to enforce specifically the terms and conditions hereof; and/or

(v) To obtain damages pursuant to the indemnity provisions of Sections 9.01 and 9.06 of this Agreement.

10.04 Events of Default of an Asset Owner.

(a) Events of Default of an Asset Owner. Subject to the terms and conditions of this Section 10.04, the occurrence of any of the events listed below shall constitute an event of default of an Asset Owner under this Agreement (in each instance, an "Asset Owner Default"):

(i) Failure by the Asset Owner to perform any material obligation set forth in this Agreement and continuation of such failure for longer than thirty (30) days after the receipt by the Asset Owner of written notice of such failure from the ISO, provided, however, that if the Asset Owner is diligently pursuing a remedy during such thirty day (30) period, said cure period shall be extended for an additional thirty (30) days or as otherwise agreed by the ISO;

(ii) If there is a dispute between the ISO and the Asset Owner as to whether the Asset Owner has failed to perform a material obligation, the cure period(s) provided in Section 10.03(a)(i) above shall run from the point at which a finding of failure to perform has been made by a Governmental Authority;

(iii) With respect to the Asset Owner, (A) the filing of any petition in bankruptcy or insolvency, or for reorganization or arrangement under any bankruptcy or insolvency laws, or voluntarily taking advantage of any such laws by answer or otherwise or the commencement of involuntary proceedings under any such laws, (B) assignment by the Asset Owner for the benefit of creditors; or (C) allowance by the Asset Owner of the appointment of a receiver or trustee of all or a material part of its property if such receiver or trustee is not discharged within thirty (30) days after such appointment; or

(b) Remedies for Default. If an event of default by an Asset Owner occurs and is continuing, the ISO shall have the following remedies, all of which shall be cumulative and not exclusive:

(i) terminate this Agreement in accordance with Section 10.01(e); provided that if the Asset Owner contests such allegation of the Asset Owner event of default, this Agreement shall remain in effect pending resolution of the dispute, but any applicable notice period shall run during the pendency of the dispute;

(ii) such specific performance and/or an injunction to prevent breaches of this Agreement and to enforce specifically the terms and conditions hereof; or

(iii) obtain damages pursuant to the indemnity provisions of Sections 9.01 and 9.06.

(c) Notwithstanding anything to the contrary herein, nothing in this Section 10.04 shall be deemed to give the ISO or any the ISO agent or designee the right to exercise any functions other than those enumerated as Operating Authority in Section 3.02 or the right to take physical control of the Asset Owner Phase I/II HVDC Transmission Facilities.

10.05 Procedures Relating to Grandfathered Facility Agreements.

(a) In recognition that the Grandfathered Facility Agreements include certain provisions that could relate to the Parties' exercise of their rights and obligations under this Agreement, the Parties establish the procedures set forth in this Section 10.05.

(i) As used in this Agreement, "GFA Impacts" are those actions that would:

(A) require the Phase II Asset Owners to incur any new indebtedness for borrowed money, other than unsecured debt for working capital needs for Phase II not in excess of \$25 million, or to issue any new guarantees, in each case unless otherwise approved by the Phase II Asset Owners and Phase II Noteholders or permitted by the Phase II Note Agreement;

(B) require VETCO to incur any new indebtedness for borrowed money or make investments, other than as permitted under the Phase I Note Agreement for indebtedness not in excess of \$5 million or \$10 million (as the case may be) or in connection with permitted additions, repairs and improvements to Phase I, in each case unless otherwise approved by VETCO and the Phase I Noteholders;

(C) require the Asset Owners to make equity investments in excess of the amount stipulated in Section 1 of their respective Phase I Support Agreements, require any of the parties to the Phase I Support Agreements to purchase common stock of, make capital contributions to

or make loans or advances to any Asset Owner, or interfere with the prompt distribution of any dividends or interest with respect to any such investments made for Phase I or Phase II;

(D) create or incur any new liens with respect to any of the Phase I/II HVDC Transmission Facilities, or require the Asset Owners to create or incur any new liens with respect to the Phase I/II HVDC Transmission Facilities, except as provided in the Grandfathered Facility Agreements or unless as otherwise approved by the Noteholders under the applicable Notes;

(E) impair the ability of: (1) a Phase I Asset Owner, in accordance with the Phase I Support Agreements and Phase I Equity Funding Agreements, to maintain an equity capitalization other than the level of equity capitalization that existed during the first year of Phase I operations or (2) a Phase II Asset Owner, in accordance with the Phase II Support Agreements and Phase II Equity Funding Agreements, to maintain an equity capitalization of greater than 40 percent of its total capital during the period that such Asset Owner has outstanding debt in its capital structure);

(F) modify the payment obligations of the Interconnection Rights Holders under the Support Agreements and Phase II Equity Funding Agreements or impair the ability of the Interconnection Rights Holders to pay the applicable Support Charge, Cash Deficiency, and other fees or amounts as provided under the Support Agreements and Phase II Equity Funding Agreements;

(G) prevent the coordination of operation and maintenance of the Phase II HVDC Transmission Facilities, with the operation and maintenance of the Phase I HVDC Transmission Facilities in accordance with the Support Agreements or the coordination and operation of the Phase I HVDC Transmission Facilities with the operation and maintenance of the Phase II HVDC Transmission Facilities in accordance with the Support Agreements, provided that the ISO shall perform its outage scheduling functions in accordance with Section 3.06 of this Agreement;

(H) prevent VETCO from fulfilling its requirements under the Grandfathered Facility Agreements to make all necessary repairs, renewals, replacements, betterments and improvements to the Phase I/II HVDC Transmission Facilities, or require VETCO to make any alterations, modifications or additions to the Phase I/II HVDC Transmission Facilities if any such alterations, modifications or additions would diminish the value or utility or impair the condition of the Phase I/II HVDC Transmission Facilities below the value, utility or condition thereof immediately prior to such alterations, modifications or

additions, or require VETCO to become party to any contract or agreement that would materially and adversely affect VETCO's business, properties, assets or financial condition;

(I) prevent the Asset Owners from carrying out their responsibilities under the Support Agreements to act for the collective benefit of all Interconnection Rights Holders and the Asset Owners rather than for the benefit of a subset thereof;

(J) alter the amount or unconditional character of the payment obligations of the Interconnection Rights Holders under the Support Agreements, the dates on which such payments must be made or shorten the term of such agreements or alter the amount or unconditional character of the payment obligations of the Equity Sponsors under the Equity Funding Agreements, the dates on which such payments must be made or shorten the term of such agreements;

(K) materially adversely affect the ability of the Asset Owners to provide Use Rights to the Interconnection Rights Holders in accordance with the Support Agreements and the Restated Use Agreement (which shall mean an impairment of the Use Rights beyond any impairment that may result from Short-Term Reliability Actions or Directives) and/or limit the ability of the Interconnection Rights Holders, individually or collectively, to use or transfer the Use Rights in accordance with the Support Agreements and the Restated Use Agreement, except to the extent that the Interconnection Rights Holders or the IRH Management Committee may voluntarily and expressly agree to such limitations in the TSAA or the applicable schedules to the ISO Tariff filed by certain of the Interconnection Rights Holders reflect such limitations, *provided*, that the Use Rights referred to in this subparagraph shall be as specified in the Restated Use Agreement as it exists on the Effective Date, and not as such Use Rights may be amended through changes in the Restated Use Agreement after the Effective Date;

(L) prevent the Asset Owners from exercising their rights under the Support Agreements and Section 3.05 of this Agreement to undertake an immediate shutdown of the Phase I/II HVDC Transmission Facilities when safety considerations so require;

(M) prevent the Asset Owners from exercising their rights under the Support Agreements to terminate an IRH's participation in the project and reallocation of that IRH's Participating Share in the event of a default under the Support Agreements;

(N) withhold from the Asset Owners information regarding proceedings which might result in a material adverse change in the operations of the Asset Owners or impair the ability of the Asset Owners

to operate the project and perform their obligations under the Grandfathered Facility Agreements, provided that the ISO's actions consistent with the ISO Information Policy shall not be deemed to be such withholding and that the ISO shall have no duty to bring to the Asset Owners' attention publicly available information;

(O) prevent the HVDC Lenders from assuming the Phase I Pledged Agreements, the Phase II Equity Funding Agreements and/or Support Agreements in the event of a default under the Notes or from exercising any other right under the Phase I Security Agreement or the Security and Collateral Agency Agreement, including but not limited to demands for payment or specific performance of the entities under the Equity Funding Agreements and/or Support Agreements;

(P) prevent the Asset Owners, Equity Sponsors or Interconnection Rights Holders from taking any action to prevent a default under the Grandfathered Facility Agreements within the time frames specified in those Grandfathered Facility Agreements;

(Q) alter the absolute and unconditional Cash Deficiency Guarantees of the Equity Sponsors under the Phase II Equity Funding Agreements;

(R) prevent the Asset Owners from satisfying their obligations under the Grandfathered Facility Agreements to operate and maintain the Phase I/II HVDC Transmission Facilities in accordance with good utility practice for the benefit of all Interconnection Rights Holders, the objective under applicable provisions of those Grandfathered Facility Agreements being to operate the Phase I/II HVDC Transmission Facilities as efficiently, economically, safely, and reliably as feasible;

(S) require the Asset Owners to make expenditures above the levels necessitating approval from the Advisory Committees under the Support Agreements, unless such approval has been obtained; or

(T) require the Asset Owners to take actions necessitating approval from the Advisory Committees pursuant to the Support Agreements, unless such approval has been obtained.

The GFA Impacts listed in this Section 10.05(a)(i) were drafted to address concerns created by the specific provisions of the Grandfathered Facility Agreements listed in Schedule 10.05(a) to this Agreement.

(ii) The Asset Owners acknowledge that, prior to the effective date of this Agreement, the ISO's actions and directives with respect to the Phase I/II HVDC Transmission Facilities and the ISO's administration of the provisions of the existing NEPOOL operating procedures and other procedures applicable to the Phase I/II HVDC Transmission Facilities have not been GFA Impacts.

(iii) The Parties agree, and have obtained the agreement from the IRH under the HVDC Services Administration Agreement, that an ISO Short-Term Reliability Action or Directive, and an Asset Owner's compliance with a Short-Term Reliability Action or Directive, are not GFA Impacts.

(iv) In the event that a Grandfathered Facility Agreement is amended to modify one or more provisions cited in Section 10.05(a)(i), the Parties shall promptly amend this Agreement in corresponding fashion.

(b) Should the ISO take any action or direct any Asset Owner to take an action that the Asset Owner believes is a GFA Impact (an "ISO GFA Impact Action or Directive"):

(i) The Asset Owner shall provide notice to the ISO and the IRH Management Committee within seven (7) days after identifying the occurrence of such ISO GFA Impact Action or Directive of the occurrence of an ISO GFA Impact Action or Directive and whether such action shall be discontinued or such directive shall be rescinded, *provided, however*, that in no instance shall a Short-Term Reliability Action or Directive be considered an ISO GFA Impact Action or Directive and that no ISO GFA Impact Action or Directive shall be deemed to have occurred where the pertinent provision of a Grandfathered Facility Agreement has expired or terminated.

(ii) Following the giving of such notice, the Parties shall continue to carry out all of their other obligations under this Agreement.

(iii) For so long as the Parties comply with the provisions of this Section 10.05 and the ISO has been notified accordingly, an Asset Owner's election that an ISO GFA Impact Action or Directive shall be discontinued or rescinded shall not be an Asset Owner Default under Section 10.04 of this Agreement, nor shall an ISO GFA Impact Action or Directive be an ISO Default under Section 10.03 of this Agreement or a basis for requiring indemnification by the ISO under Article IX of this Agreement, provided that the occurrence of an ISO GFA Impact Action or Directive shall not limit the rights of the Asset Owners to seek indemnification to the extent there is an independent basis for seeking such indemnification under the terms of this Agreement.

(iv) An ISO GFA Impact Action or Directive that involves an ISO-requested upgrade to the Phase I/II HVDC Transmission Facilities shall be addressed under Section 3.08 of this Agreement and not under this Section 10.05.

(v) Within ten (10) business days of the ISO's receipt of the notice identified in Section 10.05(b)(i), and notwithstanding the fact that such ISO GFA Impact Action or Directive has been discontinued or rescinded, the ISO and the applicable Asset Owner(s), as well as a representative of the IRH Management Committee (collectively, the "Negotiating Parties") shall meet to negotiate a resolution in good faith. Each of the Negotiating Parties shall send an officer-level representative to conduct such negotiations.

(vi) In the event that the Negotiating Parties are unable to reach a mutually acceptable resolution within thirty (30) days of the inception of the negotiations described in Section 10.05(b)(v), or within such additional period mutually agreed to by the Negotiating Parties, the Negotiating Parties must promptly undertake one or more of the following actions:

(A) the Negotiating Parties may agree to pursue non-binding mediation; *provided* that, if the Negotiating Parties agree to pursue such mediation but cannot agree on a mediator, FERC's Dispute Resolution Service or a FERC settlement judge shall serve as the mediator;

(B) the ISO or an Asset Owner may initiate an action seeking declaratory, injunctive or other equitable relief with respect to the ISO GFA Impact Action or Directive, including whether the ISO's action or directive in fact creates a GFA Impact; and

(C) the ISO or an Asset Owner may give notice of withdrawal pursuant to Sections 10.01(c) or 10.01(b) of this Agreement respectively and pursue the termination process specified in Sections 10.01(d), (e) and (f) of this Agreement. The Party giving notice shall also provide a copy of such notice to the Secretary of the IRH Management Committee.

ARTICLE XI

MISCELLANEOUS

11.01 Notices.

Unless otherwise expressly specified or permitted by the terms hereof, all communications and notices provided for herein shall be in writing and any such communication or notice shall become effective (a) upon personal delivery thereof, including by overnight mail or courier service, (b) in the case of notice by United States mail, certified or registered, postage prepaid, return receipt requested, upon receipt thereof, or (c) in the case of notice by facsimile, upon receipt thereof; *provided that* such transmission is promptly confirmed by either of the methods set forth in clauses (a) or (b) above, in each case addressed to each party and copy party hereto at its address set forth in Schedule 11.01 or, in the case of any such party or copy party hereto, at such other address as such party or copy party may from time to time designate by written notice to the other party hereto; *further provided* that a notice given in connection with this Section 11.01 but received on a day other than a Business Day, or after business hours in the situs of receipt, will be deemed to be received on the next Business Day.

11.02 Supersession of Prior Agreements.

With respect to the subject matter hereof, this Agreement (together with all schedules and exhibits attached hereto) constitutes the entire agreement and understanding among the Parties with respect to all subjects covered by this Agreement and supersedes all prior discussions, agreements and understandings among the Parties with respect to such matters, including those

agreements set forth on Schedule 11.02 attached hereto. To the extent that such other agreements address subjects addressed in this Agreement, this Agreement shall govern.

11.03 Waiver.

Any term or condition of this Agreement may be waived at any time by the Party that is entitled to the benefit thereof, but no such waiver shall be effective unless set forth in a written instrument duly executed by or on behalf of the Party waiving such term or condition. No waiver by any Party of any term or condition of this Agreement, in any one or more instances, shall be deemed to be or construed as a waiver of the same or any other term or condition of this Agreement on any future occasion. All remedies, either under this Agreement or by Law or otherwise afforded, shall be cumulative and not alternative.

11.04 Amendment; Coordination; Limitations on Modifications of Agreement.

(a) Except as otherwise specifically provided herein, this Agreement shall only be subject to modification or amendment by mutual agreement of the Asset Owners and the ISO and the acceptance of any such amendment by FERC. The ISO shall be deemed to have agreed to such amendment upon execution of the amendment. The Asset Owners will be deemed to have agreed to such amendment upon:

(i) With respect to an amendment to Sections 2.01, 2.03, 3.04, 3.05, 3.08, 3.09, 9.01, 9.06(a), 10.01(a), 10.01(b), 10.05, 11.04, and 11.09 of this Agreement and Article I of this Agreement as it relates to these Sections or an amendment to any Section of this Agreement that would be made retroactive to a date prior to the effective date of the amendment, the execution of the amendment by all of the Asset Owners; or

(ii) With respect to an amendment to the remaining provisions of this Agreement, the execution of the amendment by the majority of the Asset Owners.

(b) The Parties recognize that the ISO is also a party to the Phase I/II HVDC-TF Service Administration Agreement with the IRHs and a party to the Interconnection Operators Agreement with Hydro-Québec TransÉnergie, and recognize that the Asset Owners are parties to Support Agreements with the IRHs and parties to the Asset Owners Agreement with Hydro-Québec TransÉnergie. Given the interrelated nature of the rights and obligations of the ISO, the Asset Owners the IRHs, and Hydro-Québec TransÉnergie, the ISO and Asset Owners agree to make good faith efforts to coordinate performance, amendments and dispute resolution under this Agreement and the other agreements referenced in this Section 11.04(b), so that the ISO and the Asset Owners do not become subject to conflicting rights and obligations under these agreements.

(c) In light of the foregoing, the Parties agree that they shall not rely to their detriment on any purported amendment, waiver or other modification of any rights under this Agreement unless the requirements of this Section 11.04 are satisfied and further agree not to assert equitable estoppel or any other equitable theory to prevent enforcement of this provision in any court of law or equity, arbitration or other proceeding.

(d) Absent the agreement of the Parties to any proposed change hereof or an amendment hereof pursuant to Section 11.04(a), the standard of review for changes to the following sections of this Agreement (or changes to any schedules associated with such sections) proposed by a Party, a non-party or the Federal Energy Regulatory Commission acting sua sponte shall be the "public interest" standard of review under the Mobile-Sierra Doctrine: 2.01, 2.02, 2.03, 3.01, 3.02, 3.03, 3.04, 3.05, 3.07, 3.08, 3.09, 3.11, 4.01(e), 6.06, 9.01, 9.06, 10.01(d), 10.02, 10.03, 10.04, and 10.05, 11.04(a)-(e), 11.06, 11.15, 11.17, and Article I, as it applies to the foregoing sections. Absent the agreement of the Parties to any proposed change hereof or an amendment hereof pursuant to Section 11.04(a), with respect to changes to the remaining provisions of this Agreement proposed by a Party, a non-party or the Federal Energy Regulatory Commission acting sua sponte, the standard of review shall be that provided under Section 206 of the Federal Power Act.

(e) Notwithstanding the Parties' rights under Sections 3.05 and 3.11 hereof, neither the ISO nor any Asset Owner shall propose to modify or amend the ISO OATT nor any other tariff, rate schedule, procedure, protocol, or agreement applicable to the ISO or any Asset Owner in any manner that would limit, alter, or adversely affect the rights and responsibilities of the non-proposing Party under this Agreement or that would otherwise be inconsistent with the provisions of this Agreement unless: (i) the Asset Owners and the ISO have entered into a prior written agreement to make corresponding modifications to this Agreement in accordance with this Section 11.04, or (ii) if the corresponding modifications to the provisions of this Agreement enumerated in Section 11.04(c) above are required, the proposing Party also requests FERC to find (or FERC has already so found) that the corresponding modifications are required under the "public interest" standard of review under the Mobile-Sierra Doctrine or (iii) if corresponding modifications to the remainder of the Agreement are required, the proposing Party also requests FERC to find (or FERC has already so found) that the corresponding modifications are required under the standard of review under Section 206 of the Federal Power Act.

(f) All Parties shall be provided written copies of any proposed amendments to this Agreement, and the Parties shall notify stakeholders of proposed amendments to this Agreement by posting such amendments on the ISO website prior to the filing of such amendments with FERC and shall consider input from interested stakeholders concerning such proposed amendments.

11.05 No Third Party Beneficiaries.

Except as provided in Article IX, it is not the intention of this Agreement or of the Parties to confer a third party beneficiary status or rights of action upon any Person or entity whatsoever other than the Parties and nothing contained herein, either express or implied, shall be construed to confer upon any Person or entity other than the Parties any rights of action or remedies either under this Agreement or in any manner whatsoever.

11.06 No Assignment; Binding Effect.

Neither this Agreement nor any right, interest or obligation hereunder may be assigned by a Party (including by operation of law) without the prior written consent of the other Party in its sole discretion and any attempt at assignment in contravention of this Section 11.06 shall be

void. The Asset Owner may assign or transfer any or all of its rights, interests and obligations hereunder upon the transfer of its assets through sale, reorganization, or other transfer, provided that:

(a) the Asset Owner's successors and assigns shall agree to be bound by the terms of this Agreement except that Asset Owner's successors and assigns shall not be required to be bound by any obligations hereunder to the extent that the Asset Owner has agreed to retain such obligations; and

(b) notwithstanding (a), the Asset Owner shall assign or transfer to any new owner of the Phase I/II HVDC Transmission Facilities subject to this Agreement all of the rights, responsibilities and obligations associated with the physical operation of the Phase I/II HVDC Transmission Facilities as well as all of the rights, responsibilities and obligations associated with the ISO's Operating Authority with respect to the Phase I/II HVDC Transmission Facilities, further provided that the new owner shall have the right to retain one or more subcontractors to perform any or all of its responsibilities or obligations under this Agreement.

Subject to the foregoing, this Agreement is binding upon, inures to the benefit of and is enforceable by the Parties and their respective permitted successors and assigns. No assignment shall be effective until the Asset Owner receives all required regulatory approvals for such assignment.

11.07 Further Assurances; Information Policy; Access to Records.

(a) Each Party agrees, upon another Party's request, to make Commercially Reasonable Efforts to execute and deliver such additional documents and instruments, provide information, and to perform such additional acts as may be necessary or appropriate to effectuate, carry out and perform all of the terms, provisions, and conditions of this Agreement and of the transactions contemplated hereby.

(b) The ISO shall, upon each Asset Owner's request, make available to the Asset Owner any and all information within the ISO's custody or control that is necessary for the Asset Owner to perform its responsibilities and obligations or enforce its rights under this Agreement, provided that such information shall be made available to the Asset Owner only to the extent permitted under the ISO Information Policy and subject to any applicable restrictions in the ISO Information Policy, including provisions of the ISO Information Policy governing the confidential treatment of non-public information, and provided further that the Asset Owner employee or employee of an Asset Owner's HVDC Control Center shall comply with such ISO Information Policy and any applicable standards of conduct to prevent the disclosure of such information to any unauthorized Person. Any dispute concerning what information is necessary for the Asset Owner to perform its responsibilities and obligations or enforce its right under this Agreement shall be subject to dispute resolution under Section 11.12 of this Agreement.

(c) Each Asset Owner shall, upon the ISO's request:

(i) make available to the ISO any and all information within the Asset Owner's custody or control that is necessary for the ISO to perform its responsibilities and obligations or enforce its rights under this Agreement,

provided that such information shall be shall be made available to the ISO only to the extent permitted under the ISO Information Policy and subject to any applicable restrictions in the ISO Information Policy, including provisions of the ISO Information Policy governing the confidential treatment of non-public information, and provided further that any ISO employee shall comply with such ISO Information Policy and any applicable standards of conduct to prevent the disclosure of such information to any unauthorized Person. Any dispute concerning what information is necessary for the ISO to perform its responsibilities and obligations or enforce its right under this Agreement shall be subject to dispute resolution under Section 11.12 of this Agreement.

(ii) make reasonable efforts to provide information and support in response to the ISO's requests within the ISO's requested time frames as specified in the ISO OATT

(d) If, in order to properly prepare its Tax Returns, other documents or reports required to be filed with Governmental Authorities or its financial statements or to fulfill its obligations hereunder, it is necessary that the ISO or the Asset Owner be furnished with additional information, documents or records not referred to specifically in this Agreement, and such information, documents or records are in the possession or control of the ISO or the Asset Owner, the ISO or the Asset Owner shall use its best efforts to furnish or make available such information, documents or records (or copies thereof) at the ISO's or the Asset Owner's request, cost and expense. Any information obtained by the ISO or the Asset Owner in accordance with this paragraph shall be subject to any applicable provisions of the ISO Information Policy

(e) Notwithstanding anything to the contrary contained in this Section 11.07:

(i) no Party shall be obligated by this Section 11.07 to undertake studies or analyses that such Party would not otherwise be required to undertake or to incur costs outside the normal course of business to obtain information that is not in such Party's custody or control at the time a request for information is made pursuant to this Section 11.07;

(ii) if the Asset Owner and the ISO are in an adversarial relationship in litigation or arbitration (other than with respect to litigation or arbitration to enforce this Section 11.07), the furnishing of information, documents or records by the ISO or the Asset Owner in accordance with this Section 11.07 shall be subject to applicable rules relating to discovery;

(iii) no Party shall be compelled to provide any privileged and/or confidential documents or information that are attorney work product or subject to the attorney/client privilege; and

(iv) no Party shall be required to take any action that impairs or diminishes its rights under this Agreement, diminishes any other Party's obligations under this Agreement or otherwise lessens the value of this Agreement to such Party.

11.08 Business Day.

Notwithstanding anything herein to the contrary, if the date on which any payment is to be made pursuant to this Agreement is not a Business Day, the payment otherwise payable on such date shall be payable on the next succeeding Business Day with the same force and effect as if made on such scheduled date and, provided such payment is made on such succeeding Business Day, no interest shall accrue on the amount of such payment from and after such scheduled date to the time of such payment on such next succeeding Business Day.

11.09 Governing Law.

This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware including all matters of construction, validity and performance without regard to the conflicts-of-laws provisions thereof.

11.10 Consent to Service of Process.

Each of the Parties hereby consents to service of process by registered mail, Federal Express or similar courier at the address to which notices to it are to be given, it being agreed that service in such manner shall constitute valid service upon such party or its respective successors or assigns in connection with any such action or proceeding; provided, however, that nothing in this Section 11.10 shall affect the right of any such Parties or their respective successors and permitted assigns to serve legal process in any other manner permitted by applicable Law or affect the right of any such Parties or their respective successors and assigns to bring any action or proceeding against any other one of such Parties or its respective property in the courts of other jurisdictions.

11.11 Specific Performance; Force Majeure.

(a) Specific Performance. The Parties specifically acknowledge that a breach of this Agreement, whether or not an Event of Default, and notwithstanding any cure period in Section 10.03(b), would cause each of the non-breaching Parties to suffer immediate and irreparable harm due to the unique relationship among the Parties. The Parties hereto shall be entitled to seek specific performance and/or an injunction or injunctions to prevent breaches of the provisions of this Agreement and to enforce specifically the terms and conditions hereof in any court of competent jurisdiction, such remedy being in addition to any other remedy to which any Party may be entitled at law or in equity.

(b) Force Majeure. A Party shall not be considered to be in default or breach under this Agreement, and shall be excused from performance or liability for damages to any other party, if and to the extent it shall be delayed in or prevented from performing or carrying out any of the provisions of this Agreement, except the obligation to pay any amount when due, in consequence of any act of God, labor disturbance, failure of contractors or suppliers of materials (not including as a result of non-payment), act of the public enemy or terrorists, war, invasion, insurrection, riot, fire, storm, flood, ice, explosion, breakage or accident to machinery or equipment or by any other cause or causes (not including a lack of funds or other financial causes) beyond such Party's reasonable control, including any order, regulation, or restriction imposed by governmental, military or lawfully established civilian authorities. Any Party claiming a force majeure event shall use reasonable diligence to remove the condition that

prevents performance, except that the settlement of any labor disturbance shall be in the sole judgement of the affected Party.

11.12 Dispute Resolution.

The Parties agree that any dispute arising under this Agreement shall be the subject of good-faith negotiations among the affected Parties and affected market participants, if any. Each affected Party and each affected market participant shall designate one or more representatives with the authority to negotiate the matter in dispute to participate in such negotiations. The affected Parties and affected market participants shall engage in such good-faith negotiations for a period of not less than 60 calendar days, unless: (a) a Party or market participant identifies exigent circumstances reasonably requiring expedited resolution of the dispute by FERC or a court or agency with jurisdiction over the dispute; or (b) the provisions of this Agreement otherwise provide a Party the right to submit a dispute directly to FERC for resolution. Any other dispute that is not resolved through good-faith negotiations may, by any Party or market participant, be submitted for resolution by FERC or a court or agency with jurisdiction over the dispute upon the conclusion of such negotiations. Any Party or market participant may request that any dispute submitted to FERC for resolution be subject to FERC settlement procedures. Notwithstanding the foregoing, any dispute arising under this Agreement may be submitted to arbitration or any other form of alternative dispute resolution upon the agreement of all affected Parties and all affected market participants to participate in such an alternative dispute resolution process.

11.13 Invalid Provisions.

If any provision of this Agreement is held to be illegal, invalid or unenforceable under any present or future Law, and if the rights or obligations of any Party under this Agreement shall not be materially and adversely affected thereby, (a) such provision shall be fully severable, (b) this Agreement shall be construed and enforced as if such illegal, invalid or unenforceable provision had never comprised a part hereof, (c) the remaining provisions of this Agreement shall remain in full force and effect and shall not be affected by the illegal, invalid or unenforceable provision or by its severance herefrom, and (d) the court holding such provision to be illegal, invalid or unenforceable may in lieu of such provision add as a part of this Agreement a legal, valid and enforceable provision as similar in terms to such illegal, invalid or unenforceable provision as it deems appropriate; provided that nothing in this Section 11.13 shall limit a Party's right to appeal conditions to regulatory approval in accordance with Section 11.17(d).

11.14 Headings and Table of Contents.

The headings of the sections of this Agreement and the Table of Contents are inserted for purposes of convenience only and shall not be construed to affect the meaning or construction of any of the provisions hereof.

11.15 Liabilities; No Joint Venture.

(a) The obligations and liabilities of the ISO and the Asset Owners arising out of or in connection with this Agreement shall be several, and not joint, and each Party shall be responsible for its own debts, including Taxes. No Party shall have the right or power to bind

any other Party to any agreement without the prior written consent of such other Party. The Parties do not intend by this Agreement to create nor does this Agreement constitute a joint venture, association, partnership, corporation or an entity taxable as a corporation or otherwise. No express or implied term, provision or condition of this Agreement shall be deemed to constitute the parties as partners or joint venturers.

(b) To the extent any Party has claims against any other Party, such Party may only look to the assets of the other Party for the enforcement of such claims and may not seek to enforce any claims against the directors, members, officers, employees, affiliates or agents of such other Party who, each Party acknowledges and agrees, have no liability, personal or otherwise, by reason of their status as directors, members, officers, employees, affiliates or agents of that Party, with the exception of fraud or willful misconduct.

11.16 Counterparts.

This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute but one and the same instrument. The parties hereto agree that any document or signature delivered by facsimile transmission shall be deemed an original executed document for all purposes hereof.

11.17 Conditions Precedent.

Notwithstanding anything to the contrary in this Agreement, this Agreement shall not be effective with respect to any Party unless all of the conditions precedent set forth in this Section 11.17 shall have been satisfied or waived.

(a) Required Regulatory Approvals. All final required regulatory approvals shall have been obtained and be in full force and effect and shall not be subject to the satisfaction of any condition or conditions that, if accepted, would: (i) in the case of the Asset Owners, in the reasonable judgment of each Asset Owner, in the aggregate have a material adverse effect on the value of the Asset Owner's Phase I/II HVDC Transmission Facilities, its expected level of transmission revenues, or its electric utility business, revenues, or financial condition, unless the Asset Owner waives said condition, provided however, that with respect to any required regulatory approval obtained from a Governmental Authority of a State, the condition set forth in this clause shall apply only if the Asset Owner operates its Transmission Business within such State; and (ii) in the case of the ISO, in its reasonable judgment, have a material adverse effect on the ISO's ability to perform its obligations under this or any other agreement to which it is subject, unless the ISO waives such condition.

(b) Board Consent. The board of directors of each Party, in its sole discretion, shall have authorized and approved such Party's executing, delivering and performing this Agreement.

(c) Right to Appeal Conditions to Regulatory Approval. In the event that a Governmental Authority conditions its regulatory approval of this Agreement on acceptance of a contractual provision, contractual modification, or any other condition or ruling related to formation of the RTO in New England that is not acceptable to any Party, such Party shall have the option of agreeing to permit this Agreement to become effective with the condition or ruling

to which it objects and appeal the propriety of the condition or ruling to courts of competent jurisdiction; provided that, in the event a Final Order requires a vacation or modification of such objectionable condition or ruling, this Agreement shall thereupon be modified consistent with that Final Order; provided, however, that the other Party may exercise their rights to withdraw from or terminate this Agreement pursuant to Section 10.01(b) or Section 10.01(d), as applicable.

IN WITNESS WHEREOF, this Agreement has been duly executed and delivered by the duly authorized officer of each party as of the date first above written.



Signature

ISO New England Inc
Party

Executive Vice President and Chief Operating Officer
Title of Signatory

Vamsi Chadalavada
Executive Vice President and Chief Operating Officer

ISO New England Inc.
One Sullivan Road
Holyoke, MA 01040-2841
USA

Pamela A Viapiano
Vice President

New England Hydro-Transmission Electric Company Inc.
40 Sylvan Road
Waltham, MA 02451
USA

Pamela A Viapiano
Vice President

New England Hydro-Transmission Corporation
40 Sylvan Road
Waltham, MA 02451
USA

IN WITNESS WHEREOF, this Agreement has been duly executed and delivered by the duly authorized officer of each party as of the date first above written.

Signature

Party

Title of Signatory

Vamsi Chadalavada
Senior Vice President and Chief Operating Officer

ISO New England Inc.
One Sullivan Road
Holyoke, MA 01040-2841
USA

Pamela A. Viapiano

Pamela A Viapiano
Vice President

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Party

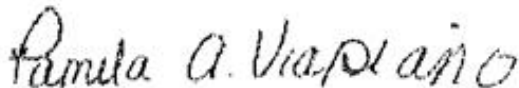
Title of Signatory

Vamsi Chadalavada
Senior Vice President and Chief Operating Officer

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Thomas Dunn
Vice President Transmission Services

Vermont Electric Transmission Company
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USA

Pamela A Viapiano
Vice President

New England Electric Transmission Company
40 Sylvan Road
Waltham, MA 02451
USA



Thomas Dunn
Vice President Transmission Services

Vermont Electric Transmission Company
366 Pinnacle Ridge Road
Rutland, VT 05701
USA

Schedule 1.01

Schedule of Definitions

Additional Term. “Additional Term” shall have the meaning ascribed thereto in Section 10.01(a) of this Agreement.

Additional HVDC Procedures. “Additional HVDC Procedures” shall have the meaning ascribed thereto in Section 3.02(e).

Agreement. This HVDC Transmission Operating Agreement, as it may be amended from time to time.

Advisory Committee(s). The Advisory Committees established under the Phase I Support Agreements or the Phase II Support Agreements.

Ancillary Service. Those services that are necessary to support the transmission of electric capacity and energy from resources to loads while maintaining reliable operation of the transmission system in accordance with Good Utility Practice.

Asset Owner. “Asset Owner” shall have the meaning ascribed thereto in the opening paragraph of the Agreement.

Asset Owners Agreement. The “Asset Owners Agreement” is the agreement between the Asset Owners and Hydro-Québec TransÉnergie addressing the coordinated operation of the Phase I/II HVDC Transmission Facilities with the facilities operated by Hydro-Québec TransÉnergie.

Asset Owner Default. “Asset Owner Default” shall have the meaning ascribed thereto in Section 10.04(a) of this Agreement.

Back-up Control Center. The control center established by the ISO as a back-up to the ISO Control Center.

Business Day. Any day other than a Saturday or Sunday or an ISO holiday, as posted by the ISO on its website.

Cash Deficiency. “Cash Deficiency” shall have the meaning ascribed thereto in the Phase II Equity Funding Agreements.

Cash Deficiency Guarantees. “Cash Deficiency Guarantees” shall have the meaning ascribed thereto in the Phase II Equity Funding Agreements.

Commercially Reasonable Efforts: A level of effort which in the exercise of prudent judgment in the light of facts or circumstances known, or which should reasonably be known, at the time a decision is made, can be expected by a reasonable person to accomplish the desired result in a manner consistent with Good Utility Practice and which takes the performing party's interests into consideration. "Commercially Reasonable Efforts" will not be deemed to require a Person to undertake unreasonable measures or measures that have a significant adverse economic affect

on such Person, including the payment of sums in excess of amounts that would be expended in the ordinary course of business for the accomplishment of the stated purpose.

Commission. The Federal Energy Regulatory Commission.

Common Dispatch Instructions (“CDI”). “Common Dispatch Instructions” are a specific protocol concerning the coordinated dispatch of the Phase I/II HVDC Transmission Facilities developed pursuant to the Interconnection Operators Agreement.

Control Area. An electric power system or combination of electric power systems, bounded by metering, to which a common automatic generation control scheme is applied in order to:

(a) match, at all times, the power output of the generators within the electric power system(s) and capacity and energy purchased from entities outside the electric power system(s), with the load within the electric power system(s);

(b) maintain scheduled interchange with other Control Areas, within the limits of Good Utility Practice;

(c) maintain the frequency of the electric power system(s) within reasonable limits in accordance with Good Utility Practice and applicable NERC/NPCC Requirements; and

(d) provide sufficient generating capacity to maintain operating reserves in accordance with Good Utility Practice.

Coordination Agreement. An agreement between the ISO and the operator(s) of one or more neighboring Control Areas addressing issues including interchange scheduling, operational arrangements, emergency procedures, energy for emergency and reliability needs, the exchange of information among Control Areas, and other aspects of the coordinated operation of the Control Areas.

DMNRC Prudential Agreement. The agreement identified as item CC in Schedule 3.09.

Effective Date. “Effective Date” shall have the meaning ascribed thereto in Section 10.01(a)(ii) of this Agreement.

Environment. Soil, land surface or subsurface strata, surface waters (including navigable waters, ocean waters, streams, ponds, drainage basins, and wetlands), groundwaters, drinking water supply, stream sediments, ambient air (including indoor air), plant and animal life, and any other environmental medium or natural resource.

Environmental Damages. “Environmental Damages” shall mean any cost, damages, expense, liability, obligation or other responsibility arising from or under Environmental Law consisting of or relating to:

(a) any environmental matters or conditions (including on-site or off-site contamination, occupational safety and health, and regulation of chemical substances or products);

(b) fines, penalties, judgments, awards, settlements, legal or administrative proceedings, damages, losses, claims, demands and response, investigative, remedial or inspection costs and expenses arising under Environmental Law;

(c) financial responsibility under Environmental Law for cleanup costs or corrective action, including any investigation, cleanup, removal, containment or other remediation or response actions (“Cleanup”) required by applicable Environmental Law (whether or not such Cleanup has been required or requested by any Governmental Authority or any other Person) and for any natural resource damages; or

(d) any other compliance, corrective, investigative, or remedial measures required under Environmental Law.

Environmental Laws. Any Law now or hereafter in effect and as amended, and any judicial or administrative interpretation thereof, including any judicial or administrative order, consent decree or judgment, relating to pollution or protection of the Environment, health or safety or to the use, handling, transportation, treatment, storage, disposal, release or discharge of Hazardous Materials.

Equity Funding Agreements. Collectively, the Phase I Equity Funding Agreements and the Phase II Equity Funding Agreements.

Equity Sponsor. “Equity Sponsor” shall have the meaning ascribed thereto in the Phase II Equity Funding Agreements.

Excluded Assets. “Excluded Assets” shall have the meaning ascribed thereto in Section 2.04 of this Agreement.

Existing Operating Procedures. “Existing Operating Procedures” shall have the meaning ascribed thereto in Section 3.02(d) of this Agreement.

External Transactions. Interchange transactions between the New England Transmission System and neighboring Control Areas.

FACTS. Flexible AC Transmission Systems.

FERC. The Federal Energy Regulatory Commission.

Final Order. An order issued by a Governmental Authority in a proceeding after all opportunities for rehearing are exhausted (whether or not any appeal thereof is pending) that has not been revised, stayed, enjoined, set aside, annulled or suspended, with respect to which any required waiting period has expired, and as to which all conditions to effectiveness prescribed therein or otherwise by law, regulation or order have been satisfied.

FPA. The Federal Power Act.

FTR. A Financial Transmission Right, as defined in the ISO OATT.

Generally Accepted Accounting Principles. The widely accepted set of rules, conventions, standards, and procedures for reporting financial information, as established by the Financial Accounting Standards Board.

GFA Impacts. “GFA Impacts” shall have the meaning ascribed thereto in Section 10.05(a)(i) of this Agreement.

Good Utility Practice. Any of the practices, methods and acts engaged in or approved by a significant portion of the electric utility industry during the relevant time period, or any of the practices, methods and acts which, in the exercise of reasonable judgment in light of the facts known at the time the decision was made, could have been expected to accomplish the desired result at a reasonable cost consistent with good business practices, reliability, safety, regard for the operating characteristics of the Phase I/II HVDC Transmission Facilities and expedition. Good Utility Practice is not intended to be limited to the optimum practice, method, or act to the exclusion of all others, but rather includes all acceptable practices, methods, or acts generally accepted in the region.

Governmental Authority. The government of any nation, state or other political subdivision thereof, including any entity exercising executive, military, legislative, judicial, regulatory, or administrative functions of or pertaining to a government, not including the Asset Owners or the ISO.

Grandfathered Facility Agreement. An agreement or agreements related to the financing, support or use of the Phase I/II HVDC Transmission Facilities that is set forth in Schedule 3.10 of this Agreement.

Hazardous Materials. Any waste or other substance that is listed, defined, designated, or classified as, or otherwise determined to be, hazardous, radioactive, or toxic or a pollutant or a contaminant under or pursuant to any Environmental Law, including any admixture or solution thereof, and specifically including petroleum and all derivatives thereof or synthetic substitutes therefor and asbestos or asbestos-containing materials.

HVDC Control Center. A station or facility responsible for the operations of the Phase I/II HVDC Transmission Facilities which may or may not be on the site of the Phase I/II HVDC Transmission Facilities and which is required to implement the instructions of a Local Control Center and/or the ISO as applicable in accordance with this HVDC TOA.

HVDC Lenders. “HVDC Lenders” shall mean the Noteholders and Mortgagee.

HVDC TOA. This HVDC Transmission Operating Agreement, as it may be amended from time to time.

Indemnifiable Loss. “Indemnifiable Loss” shall have the meaning ascribed thereto in Section 9.01(a)(i) of this Agreement.

Indemnified Person. “Indemnified Person” shall have the meaning ascribed thereto in Section 9.01(b) of this Agreement.

Indemnified Asset Owner. “Indemnified Asset Owner” shall have the meaning ascribed thereto in Section 9.01(a)(i) of this Agreement.

Indemnifying Party. “Indemnifying Party” shall have the meaning ascribed thereto in Section 9.02 of this Agreement.

Indemnifying Asset Owner. “Indemnifying Asset Owner” shall have the meaning ascribed thereto in Section 9.01(b) of this Agreement.

Indemnitee. “Indemnitee” shall have the meaning ascribed thereto in Section 9.02 of this Agreement.

Independent Transmission Company or ITC. A transmission entity that assumes certain responsibilities in accordance with Attachment M to the ISO OATT, subject to the acceptance or approval of the FERC and a finding of the FERC that the transmission entity satisfies applicable independence requirements.

Initial Term. “Initial Term” shall have the meaning ascribed thereto in Section 10.01(a) of this Agreement.

Interconnection Agreement. An agreement or agreements for the interconnection of any entity to the Phase I/II HVDC Transmission Facilities. For purposes of this Agreement, the term “Interconnection Agreement” shall not include agreements between the ISO and the operator(s) of one or more neighboring Control Areas, which agreements shall be defined herein as “Coordination Agreements.”

Interconnection Operators Agreement. The “Interconnection Operators Agreement” is the Coordination Agreement between the ISO and Hydro-Québec TransÉnergie addressing the coordinated operation of the Phase I/II HVDC Transmission Facilities with the facilities operated by Hydro-Québec TransÉnergie.

Interconnection Rights Holders (“IRH”). “Interconnection Rights Holder(s)” shall mean the entities that pay for and hold exclusive Use Rights to the transmission capacity of the Phase I/II HVDC Transmission Facilities, as granted under the Support Agreements and as further provided for under the Restated Use Agreement, either (i) directly, by virtue of being parties to the Support Agreements, or (ii) indirectly (“Indirect IRH(s)”), through a transfer agreement.

IRH Management Committee. The committee provided for under the Restated Use Agreement.

Interconnection Standard. The applicable interconnection standards set forth in the ISO OATT.

ISO. ISO New England Inc., the RTO for New England authorized by the Federal Energy Regulatory Commission to exercise the functions required pursuant to FERC’s Order No. 2000 and FERC’s corresponding regulations.

ISO Administrative Charge. “ISO Administrative Charge” shall have the meaning ascribed thereto in Section 3.04(h) of this Agreement.

ISO Control Center. The primary control center established by the ISO for the exercise of its Operating Authority and the performance of functions as an RTO.

ISO Default. “ISO Default” shall have the meaning ascribed thereto in Section 10.03(a) of this Agreement.

ISO GFA Impact Action or Directive. “ISO GFA Impact Action or Directive” shall have the meaning ascribed thereto in Section 10.05(b) of this Agreement.

ISO Information Policy. The information policy set forth in the ISO OATT.

ISO-NE. ISO New England Inc.

ISO OATT. The ISO Open Access Transmission Tariff, Section II of the ISO Tariff, as in effect from time to time.

ISO Participants Agreement. The agreement among the ISO and stakeholder participants addressing, *inter alia*, the stakeholder process for the ISO.

ISO Planning Process. The process set forth in the ISO OATT, for the coordinated planning and expansion of the New England Transmission System.

ISO System Plan. The regional system expansion plan for the New England Transmission System.

ISO Tariff. The ISO New England Transmission, Markets and Services Tariff on file with FERC, as in effect from time to time.

Knowledge. With respect to a Party, the collective actual knowledge of the directors and members of management of such Party, after reasonable inquiry by them of selected employees of such Party whom they believe, in good faith, to be the persons generally responsible for the subject matters to which the knowledge is pertinent. “Known” shall have the meaning correlative to “Knowledge.”

Large Generating Facility. “Large Generating Facility” shall have the meaning ascribed thereto in Schedule 22 of the ISO OATT.

Law. Any federal, state, local or foreign statute, law, ordinance, regulation, rule, code, order, other requirement or rule of law.

Load Shedding. The systematic reduction of system demand by temporarily decreasing load.

Local Control Center. Those control centers now in existence (including the CONVEX, REMVEC, Maine and New Hampshire control centers) or established by the Participating Transmission Owners in accordance with the Transmission Operating Agreement that are separate from the ISO Control Center.

Market Monitoring Unit. Any market monitoring unit established by the ISO, including any internal market monitoring unit of the ISO and any independent market monitoring unit of the ISO.

Market Rules. The rules describing how the New England Markets are administered.

Mobile-Sierra Doctrine. “Mobile-Sierra Doctrine” shall have the meaning ascribed thereto in Section 10.01(f) of this Agreement.

Mortgagee. “Mortgagee” shall have the meaning ascribed thereto in the agreement identified as item T in Schedule 3.09.

NEPOOL. The New England Power Pool.

NERC. The North American Electric Reliability Council.

NERC/NPCC Requirements. NPCC criteria, guides, and procedures, NERC reliability standards, and NERC operating policies and planning standards (until such time as they are replaced by NERC reliability standards) and any successor documents.

New England Control Area. The Control Area consisting of the interconnected electric power system or combination of electric power systems in the geographic region consisting of Vermont, New Hampshire, Maine, Massachusetts, Connecticut and Rhode Island.

New England Markets. Markets or programs (including congestion pricing and design and implementation of FTRs) for the purchase of energy, capacity, ancillary services, demand response services or other related products or services that are offered in the New England Control Area and that are administered by the ISO pursuant to rules, rates, or agreements on file from time to time with the Commission.

New England Transmission System. The system comprised of the transmission facilities over which the ISO has operational jurisdiction, including the Phase I/II HVDC Transmission Facilities of the Asset Owners and the transmission system of any ITC that may be formed pursuant to Attachment M to the ISO OATT.

Noteholders. As applicable, the Phase I Noteholders and/or the Phase II Noteholders.

Notes. Collectively, the Phase I Notes and the Phase II Notes.

NPCC. The Northeast Power Coordinating Council.

OASIS. The Open Access Same-Time Information System for New England.

Operating Authority. “Operating Authority” shall have the meaning ascribed thereto in Section 3.02 of this Agreement and shall include the responsibilities set forth in Section 3.05.

Operating Limits. The transfer limits for the Phase I/II HVDC Transmission Facilities determined in accordance with Section 3.02(a)(ii) of this Agreement.

Operating Procedures. The operating manuals, procedures, and protocols relating to the exercise of Operating Authority over the Phase I/II HVDC Transmission Facilities, as such guides, manuals, procedures, and protocols may be modified from time to time in accordance with Section 3.02(d) of this Agreement.

Operations Date. “Operations Date” shall have the meaning ascribed thereto in the Transmission Operating Agreement.

Order 2000. FERC’s Order No. 2000, *i.e.*, *Regional Transmission Organizations*, Order No. 2000, 65 Fed. Reg. 809 (January 6, 2000), FERC Stats. & Regs. ¶31,089 (1999), *order on reh'g*, Order No. 2000-A, 65 Fed. Reg. 12,088 (March 8, 2000), FERC Stats. & Regs. ¶31,092 (2000), *petitions for review pending sub nom.*, Public Utility District No. 1 of Snohomish County, Washington v. FERC, Nos. 00-1174, *et al.* (D.C. Cir).

PARS. Phase angle regulators.

Participant. A participant in the New England markets, a Transmission Customer under the ISO Tariff, or an entity that has entered into the ISO Participants Agreement.

Participating Transmission Owner. A transmission owner that is a party to the Transmission Operating Agreement (“TOA”).

Party or Parties. A “Party” shall mean the ISO or the Asset Owners, as the context requires. “Parties” shall mean all Asset Owners and the ISO.

Person. An individual, partnership, joint venture, corporation, business trust, limited liability company, trust, unincorporated organization, government or any department or agency thereof, or any other entity.

Phase I/II HVDC Transmission Facilities or HVDC-TF. “Phase I/II HVDC Transmission Facilities” or “HVDC-TF” shall have the meaning ascribed thereto in Section 2.01 of this Agreement.

Phase I/II HVDC-TF Transmission Service Administration Agreement (“TSAA”). The agreement among the ISO, the IRH Management Committee, and the Schedule 20A Service Providers governing the administration of transmission service over the Phase I/II HVDC Transmission Facilities and the rights and obligations of the IRH and the ISO with respect to the rights to the transmission capacity of the HVDC-TF.

Phase I Advisory Committee. The advisory committee described in the Phase I Support Agreements.

Phase I Asset Owner. An Asset Owner that owns Phase I HVDC Transmission Facilities.

Phase I Equity Funding Agreement. The agreement identified as item F in Schedule 3.09.

Phase I HVDC Transmission Facilities. The “Phase I HVDC Transmission Facilities” shall mean those Phase I/II HVDC Transmission Facilities constructed during Phase I of the high voltage direct current (“HVDC”) interconnection project, as described in Schedule 2.01(a).

Phase I Note Agreement. The document identified as item S in Schedule 3.09.

Phase I Noteholders. The holders of the Phase I Notes.

Phase I Notes. The notes described in the Phase I Note Agreement.

Phase I Pledged Agreements. The agreements defined as the “Pledged Agreements” in the agreement identified as item T in Schedule 3.09.

Phase I Security Agreement. The agreement identified as item T in Schedule 3.09.

Phase I Support Agreements. The agreements identified as items A, C, and U in Schedule 3.09.

Phase II Advisory Committee. The advisory committee described in the Phase II Support Agreements.

Phase II Asset Owner. An Asset Owner that owns Phase II HVDC Transmission Facilities.

Phase II Equity Funding Agreements. The agreements identified as items I and J in Schedule 3.09.

Phase II HVDC Transmission Facilities. The “Phase II HVDC Transmission Facilities” shall mean those Phase I/II HVDC Transmission Facilities constructed during Phase II of the high voltage direct current (“HVDC”) interconnection project, as described in Schedule 2.01(a).

Phase II Note Agreement. The agreement identified as item G in Schedule 3.09.

Phase II Noteholders. The holders of the notes described in the Phase II Note Agreement.

Phase II Notes. The notes described in the Phase II Note Agreement.

Phase II Support Agreements. The agreements identified as items K, L, M and N in Schedule 3.09.

Planning Procedures. The guides, manuals, procedures and protocols for planning and expansion of the New England Transmission System, as such guides, manuals, procedures, and protocols may be modified from time to time in accordance with this Agreement.

Presidential Permits. “Presidential Permits” shall mean those permits issued by the Economic Regulatory Administration of the Department of Energy or successors thereto with respect to the construction, connection, operation, and maintenance of the Phase I/II HVDC Transmission Facilities.

Prime Rate. The interest rate that commercial banks charge their most creditworthy borrowers, as published in the most recent Wall Street Journal in its “Monday Rates” column.

Rating Procedures. “Rating Procedures” shall have the meaning ascribed thereto in Section 3.02(d) of this Agreement.

Reliability Authority. “Reliability Authority” shall have the meaning established by NERC, as such definition may change from time to time, provided such definition of Reliability Authority shall not be inconsistent with the specific rights and responsibilities of the ISO and the Asset Owner under this Agreement.

Reliability Committee. “Reliability Committee” shall mean the stakeholder reliability committee established pursuant to the ISO Participants Agreement.

Restated Use Agreement: The Commission-approved agreement among the IRH, recognized in the Support Agreements, governing the rights of the IRH collectively and vis a vis one another with respect to the transmission capacity of the Phase I/II HVDC-TF, as such agreement may be amended from time to time.

RMR. Reliability must run resources.

RTO. An independent entity that complies with Order No. 2000 and FERC’s corresponding regulations (or an entity that complies with all such requirements except for the scope and regional configuration requirements), as determined by the FERC.

Sandy Pond Control Center. The HVDC Control Center for the Phase I/II HVDC Transmission Facilities located in Massachusetts which is required to implement the instructions of a Local Control Center and/or the ISO as applicable in accordance with this HVDC TOA.

Schedule 20A Service Providers. “Schedule 20A Service Providers” shall have the meaning ascribed thereto in the TSAA.

Security and Collateral Agency Agreement. The agreement described in item H of Schedule 3.09.

Short-Term Reliability Actions or Directives. “Short-Term Reliability Actions or Directives” shall mean operating actions or directives, including real-time operating actions undertaken by the ISO and real-time operating directives, issued by the ISO to the Asset Owners based on its forecast of system conditions over the next seven (7) days, to comply with the ISO Tariff (including Market Rule 1 thereof), Operating Procedures, Additional HVDC Operating Procedures, applicable NERC/NPCC Requirements, other applicable regulatory standards, and Good Utility Practice. Such directives are generally implemented through the ISO’s issuance of instructions to, or coordination with, the Sandy Pond Control Center and the associated Local Control Center with responsibility for the Phase I/II HVDC Transmission Facilities. Illustrations of Short-Term Reliability Actions and Directives include, but are not limited to, the ISO’s:

1. Determination of operating limits to the Phase I/II HVDC Transmission Facilities in accordance with Presidential Permits and the facility ratings established by the Asset Owners in collaboration with the ISO and the application of such operating limits based on forecasted or real-time system conditions. This could include:

- Reducing or shutting down the Phase I/II HVDC Transmission Facilities due to transmission or generation outages that are internal or external to New England;
 - Respecting NERC and NPCC reliability criteria as it is applied within and outside of New England;
 - Acting on external Control Area requests to limit the Phase I/II HVDC Transmission Facilities for reliability reasons
2. Operation of the Phase I/II HVDC Transmission Facilities in conjunction with the New England Markets consistent with this Agreement and the ISO Tariff (including Market Rule 1 thereof).
 3. Maintenance of short-term reliability and system security, including the scheduling, curtailment and interruption of real-time market External Transactions, in accordance with the ISO Tariff (including Market Rule 1 thereof).
 4. Approval, disapproval, cancellation or rescheduling of Phase I/II HVDC Transmission Facility outages, as necessary, for reliability and market efficiency reasons, in accordance with Section 3.06 of this Agreement and the ISO Tariff.
 5. Coordination, directly with Sandy Pond Control Center or the associated Local Control Center, as applicable, for the purpose of scheduling real-time market External Transactions and the associated power transfers with external Control Areas including the notification of ramp time, duration, and magnitude.

References to the ISO Tariff and Market Rule 1 in this definition shall not be construed to expand or contract the ISO's authority to modify the ISO Tariff or Market Rule 1 with respect to the operation or scheduling of the Phase I/II HVDC Transmission Facilities. Nor shall this definition modify the terms and conditions of any agreements governing such ISO authority to modify the ISO Tariff or Market Rule 1.

Support Agreements. Collectively, the Phase I Support Agreements and the Phase II Support Agreements.

Support Charge. The charges defined as the "Support Charge" under the applicable Support Agreement.

System Failure. Widespread telecommunication, hardware or software failure or systemic ISO hardware or software failures that makes it impossible to receive or process bid information, dispatch resources, or exercise Operating Authority over the Phase I/II HVDC Transmission Facilities.

Tax or Taxes. All taxes, charges, fees, levies, penalties or other assessments imposed by any United States federal, state or local or foreign taxing authority, including, but not limited to, income, excise, property, sales, transfer, franchise, payroll, withholding, social security or other taxes, including interest, penalties or additions attributable thereto.

Tax Return. Any return, report, information return, or other document (including any related or supporting information) required to be supplied to any authority with respect to Taxes.

Term. “Term” shall have the meaning ascribed thereto in Section 10.01(a) of this Agreement.

Termination Date. “Termination Date” shall have the meaning ascribed thereto in Section 10.01 of this Agreement.

Transmission Business. The business activities of the Asset Owner related to the ownership, operation and maintenance of its Phase I/II HVDC Transmission Facilities.

Transmission Committee. “Transmission Committee” shall mean the stakeholder transmission committee established pursuant to the ISO Participants Agreement.

Transmission Customer. Any entity taking Transmission Service under the ISO OATT.

Transmission Operating Agreement (“TOA”). “Transmission Operating Agreement” shall mean the agreement described as such in Section I of the ISO Tariff.

Transmission Owner. “Transmission Owner” shall have the meaning ascribed thereto in the ISO OATT.

TSAA. The Phase I/II HVDC-TF Transmission Service Administration Agreement.

TTC. Total Transfer Capability.

Use Rights. The “Use Rights” are the exclusive rights granted under the Support Agreements and further described and provided for under the Restated Use Agreement, within the scope of such rights as provided for under the Support Agreements and Restated Use Agreement as those agreements existed as of the date of execution of this Agreement, to each of the IRH to use or transfer the transmission capacity of the HVDC-TF in exchange for the obligation to pay for those facilities. The percentage entitlement of Use Rights held by each IRH is determined by the Support Agreements and the Restated Use Agreement.

VETCO Capital Agreement. The agreement identified as item W in Schedule 3.09.

VETCO Capital Support Agreement. The agreement identified as item X in Schedule 3.09.

Schedule 2.01(a)

Schedule of Asset Owners' Phase I/II HVDC Transmission Facilities

The Phase I/II HVDC Transmission Facilities shall consist of those facilities listed in this Schedule 2.01(a), as updated from time to time in accordance with Section 2.01 of this Agreement. The following is a general description of those Phase I/II HVDC Transmission Facilities provided for convenience only. Such general description shall not be construed to affect the meaning or construction of any of the provisions of this Agreement or to create any new obligations or requirements for any Party. In the event of any conflict between this general description of the Phase I/II HVDC Transmission Facilities and the list of facilities in this Schedule 2.01(a), as updated from time to time in accordance with Section 2.01 of this Agreement, the list of facilities shall govern.

General Description of the Phase I/II HVDC Transmission Facilities

The Phase I/II HVDC Transmission Facilities were constructed in two phases, Phase I and Phase II, respectively, and include so much of those facilities described below physically located in the United States. The Phase I/II HVDC Transmission Facilities are comprised of the Phase I [HVDC Transmission Facilities](#) and Phase II [HVDC Transmission Facilities](#). The Nominal Transfer Capability of the Phase I/II HVDC Transmission Facilities is 2,000 MW. As used in this Schedule 2.01(a), the "Nominal Transfer Capability" of the Phase I/II HVDC Transmission Facilities is the capacity that the equipment in the Phase I/II HVDC Transmission Facilities can withstand in the Phase I/II HVDC Transmission Facilities' original configuration, without regard to external impacts by interconnected AC or other systems.

The Phase I HVDC Transmission Facilities include a 107-mile high-voltage direct current (HVDC) transmission line insulated for a nominal operating voltage of 450 kV from a site near Sherbrooke, Québec to a site near Monroe, New Hampshire. The transmission line crosses the international boundary near Stanhope, Québec and Norton, Vermont. The Nominal Transfer Capability of the Phase I HVDC Transmission Facilities is 690 MW.

The two 690 MW AC/DC converter terminals were constructed at each end of the Phase I HVDC transmission line: (1) the Des Cantons Converter Terminal in Québec and (2) the Monroe Converter Terminal in New Hampshire. Since March 31, 2007, the two Phase I converter terminals, at Monroe and Des Cantons, have been retired from commercial operation. The jumpers at the Des Cantons Converter Terminal were physically removed by Hydro-Québec on April 9, 2009. However, the Phase I HVDC transmission line continues to serve as [Phase I/II HVDC Transmission Facilities](#).

The Phase II HVDC Transmission Facilities were constructed when Hydro-Québec TransÉnergie extended the Phase I transmission line from Sherbrooke, Québec approximately 700 miles north to a site near the La Grande River at James Bay. New England Hydro-Transmission Electric Company, Inc. and New England Hydro-Transmission Corporation extended the Phase I HVDC transmission line from Monroe, New Hampshire approximately 133

miles south to a site (“Sandy Pond”) near Ayer, Massachusetts. The Nominal Transfer Capability of the Phase II HVDC Transmission Facilities is 2000 MW.

Three new AC/DC converter terminals were constructed along the Phase II HVDC transmission line, two in Quebec, and the third at the Sandy Pond site. The Sandy Pond converter terminal includes rectifying and inverting equipment and controls, and is rated for 2,000 MW.

List of Asset Owners’ Phase I/II HVDC Transmission Facilities

<u>AC Circuit</u>	<u>Description</u>	<u>Voltage</u>
3512	Sandy Pond HVDC to Sandy Pond #237, up to and including the 3512-3 disconnect switch.	345 kV
3521	Sandy Pond HVDC to Sandy Pond #237, up to and including the 3521-3 disconnect switch.	345 kV

AC Transformers Voltage

Sandy Pond HVDC Pole 1 (3) single phase	345 kV
Sandy Pond HVDC Pole 2 (3) single phase	345 kV

AC/DC Converter Terminals

Sandy Pond Converter 1
Sandy Pond Converter 2

<u>HVDC Circuits</u>	<u>Description</u>	<u>Voltage</u>
451	Sandy Pond HVDC to New England/Hydro Québec International Border	450 kV DC
452	Sandy Pond HVDC to New England /Hydro Québec International Border	450 kV DC
460	Sandy Pond HVDC to New England/Hydro Québec International Border	90 kV DC

Schedule 3.02(d)

List of Existing Operating Procedures

This Schedule 3.02(d) is inclusive of all procedures and manuals in the main Transmission Operating Agreement. The Parties and operators responsible for the Phase I/II HVDC Transmission Facilities described in Schedule 2.01(a) to the HVDC Transmission Operating Agreement are bound to adhere to these Existing Operating Procedures except for those procedures or portions thereof that are inapplicable to the Phase I/II HVDC Transmission Facilities.

1. ISO New England Manual 6 - Financial Transmission Rights
2. ISO New England Manual 11 - Market Operations
3. ISO New England Manual 20 - Installed Capacity
4. ISO New England Manual 27 - Tariff Accounting
5. ISO New England Manual 28 - Market Rule 1 Accounting
6. ISO New England Manual 29 - Billing
7. ISO New England Manual 35 - Definitions And Abbreviations
8. ISO New England Manual 36 - Forward Reserve
9. ISO New England Manual - ISO-NE Load Response Program
10. ISO New England Operating Procedure No. 1 “Central Dispatch Operating Responsibility and Authority of ISO New England, the Local Control Centers and Market Participants”
11. ISO New England Operating Procedure No. 2 “Maintenance Of Communications, Computers, Metering, and Computer Support Equipment”
12. ISO New England Operating Procedure No. 3 “Transmission Outage Scheduling”
13. ISO New England Operating Procedure No. 4 “Action During a Capacity Deficiency”
14. ISO New England Operating Procedure No. 5 “Generation Maintenance and Outage Scheduling”
15. ISO New England Operating Procedure No. 6 “System Restoration”
16. ISO New England Operating Procedure No. 7 “Action In An Emergency”
17. ISO New England Operating Procedure No. 8 “Operating Reserve and Regulation”

18. ISO New England Operating Procedure No. 9 “Scheduling and Dispatch of External Transactions”
19. ISO New England Operating Procedure No. 10 “Analysis and Reporting of Power System Emergencies”
20. ISO New England Operating Procedure No. 11 “Black Start Capability Testing Requirements”
21. ISO New England Operating Procedure No. 12 “Voltage and Reactive Control”
22. ISO New England Operating Procedure No. 13 “Standards For Voltage Reduction and Load Shedding Capability”
23. ISO New England Operating Procedure No. 14 “Technical Requirements for Generation, Dispatchable and Interruptible Loads”
24. ISO New England Operating Procedure No. 16 “Transmission System Data”
25. ISO New England Operating Procedure No. 17 “Load Power Factor Correction”
26. ISO New England Operating Procedure No. 18 “Metering and Telemetry Criteria”
27. ISO New England Operating Procedure No. 19 “Transmission Operations”
28. ISO New England Operating Procedure No. 20 “Cold Weather Event Operations”
29. ISO New England Compliance Procedure
30. ISO New England Compliance and Enforcement Process For Enhanced NPCC Reliability and NERC Standards
31. Master/Local Control Center Procedure #1 “Nuclear Plant Transmission Operations”
32. Master/Local Control Center Procedure #2 “Abnormal Conditions Alert”
33. Master/Local Control Center Procedure #3 “Test Procedure For Local Control Center Satellite Phone Communications”
34. Master/Local Control Center Procedure #4 “Rules for Generator Unit Control Modes, Limits and Dispatch Terminology”
35. Master/Local Control Center Procedure #5 “Procedure for Millstone Point Station Generation Reduction”
36. Master/Local Control Center Procedure #6 “Procedure for Evacuation of ISO New England Control Room”
37. Master/Local Control Center Procedure #7 “Processing Transmission Outage Applications”

38. Master/Local Control Center Procedure #8 “Coordination of Generator Voltage Regulator Outages”
39. Master/Local Control Center Procedure #9 “Operation of the Chester Static VAR Compensator (SVC)”
40. Master/Local Control Center Procedure #10 “Generator Governor Control and Operation”

Schedule 3.02(e)

List of Existing Additional HVDC Procedures

1. Common Operating Instructions for Hydro-Québec TransÉnergie and the New England Asset Owners for the \pm 450Kv DC Lines Radisson - Nicolet - Sandy Pond (Phase II) and \pm 450Kv DC Lines Des Cantons - Monroe (Phase I), provided that such Common Operating Instructions shall be subject to modification in accordance with the Asset Owners Agreement
2. Common System Dispatch Instructions for Hydro-Québec TransÉnergie and ISO New England Inc. for the \pm 450Kv DC Lines Radisson - Nicolet - Sandy Pond (Phase II) and \pm 450 kV DC Lines Des Cantons - Monroe (Phase I), provided that such Common System Dispatch Instructions shall be subject to modification in accordance with the Interconnection Operators Agreement
3. Operating Protocol between Hydro-Québec TransÉnergie in Canada and New England Hydro-Transmission Electric Company, Inc., New England Hydro-Transmission Corp., New England Electric Transmission Corp., and New England Power Company (NEP) in the USA on the International Canada / USA Boundary Transfer Calculations (IBT) for HVDC Phase 1 and Phase 2 (April 30, 2004), provided that such Operating Protocol shall be subject to modification in accordance with the Asset Owners Agreement

Schedule 3.09

List of Grandfathered Facility Agreements

- A. Phase I Terminal Facility Support Agreement, dated as of December 1, 1981, as amended
- B. Lease Between New England Power Company and New England Electric Transmission Corporation, dated as of May 16, 1983
- C. Upper Development - Lower Development Transmission Line Support Agreement Between New England Electric Transmission Corporation and New England Power Company, dated as of May 16, 1983
- D. Agreement For Reinforcement and Improvement of New England Power Company's Transmission System, dated as of April 1, 1983
- E. Agreement For Reinforcements and Improvements Between Public Service Company Of New Hampshire New England Electric Transmission Corporation, dated as of April 1, 1986
- F. Equity Funding Agreement For New England Electric Transmission Corporation, dated as of December 1, 1985
- G. New England Hydro Finance Company, Inc., New England Hydro-Transmission Electric Company, Inc. and New England Hydro-Transmission Corporation Note And Guaranty Agreement, dated as of April 15, 1991
- H. New England Hydro Finance Company, Inc., New England Hydro-Transmission Electric Company, Inc. and New England Hydro-Transmission Corporation and Bank of Montréal Trust Company Security And Collateral Agency Agreement, dated as of April 15, 1991
- I. Equity Funding Agreement for New England Hydro-Transmission Electric Company, Inc., dated as of June 1, 1985, as amended
- J. Equity Funding Agreement for New England Hydro-Transmission Corporation, dated as of June 1, 1985, as amended
- K. Phase II Boston Edison AC Facilities Support Agreement, dated as of June 1, 1985, as amended
- L. Phase II New England Power AC Facilities Support Agreement, dated as of June 1, 1985, as amended
- M. Phase II Massachusetts Transmission Facilities Support Agreement, dated as of June 1, 1985, as amended
- N. Phase II New Hampshire Transmission Facilities Support Agreement, dated as of June 1, 1985, as amended

- O. Lease Between New England Power Company and New England Hydro-Transmission Electric Company, dated as of June 1, 1985, as supplemented on October 30, 1987
- P. Lease Between New England Power Company and New England Hydro-Transmission Corporation, dated as of June 1, 1985, as supplemented on August 10, 1987 and October 30, 1987
- Q. Fifteen Mile Falls Transmission Agreement between New England Hydro-Transmission Corporation and New England Power Company dated as of June 1, 1985
- R. Metallic Return Service Agreement Between New England Electric Transmission Corporation and New England Hydro-Transmission Corporation, dated as of July 1, 1988

With respect to the Vermont Electric Transmission Company, Inc. (VETCO) Phase I Facilities:

- S. Note Agreement by and between VETCO and the Prudential Insurance Company of America dated as of September 1, 1986, including one or more Notes issued thereunder;
- T. Mortgage and Security Agreement by and between VETCO and the Prudential Insurance Company of America dated as of September 1, 1986;
- U. Phase I Vermont Transmission Line Support Agreement by and among Vermont Electric Transmission Company, Inc. and the Participants listed therein dated as of December 1, 1981, as amended as of June 1, 1982, November 1, 1982 and January 1, 1986;
- V. Vermont Participation Agreement for Quebec Interconnection by and between Vermont Electric Power Company, Inc. and the Vermont electric distribution utilities listed therein dated as of July 15, 1982;
- W. Vermont Electric Transmission Company, Inc. Capital Funds Agreement by and between VETCO and Vermont Electric Power Company, Inc. dated as of July 15, 1982;
- X. VETCO Capital Funds Support Agreement by and between Vermont Electric Power Company, Inc. and the Vermont electric distribution utilities listed therein dated as of July 15, 1982; and
- Y. Stock-Purchase Agreement by and between Vermont Electric Power Company, Inc., VETCO and the participating utilities listed therein dated as of August 11, 1986;

With respect to the Dedicated Metallic Neutral Return Conductor installed as part of Phase II (the "DMNRC"):

- Z. Phase II Vermont DMNRC Support Agreement date as of January 1, 1988 by and among New England Hydro-Transmission Corporation, and certain named owners under that

certain Phase II Vermont DMNRC Joint-Ownership Agreement by and among Citizens Utilities Company, Franklin Electric Light Company, Inc. and Green Mountain Power Corporation dated as of January 1, 1988;

- AA. Phase II Vermont DMNRC Operating and Management Agreement by and among Vermont Electric Power Company, Inc., Citizens Utilities Company, Franklin Electric Light Company, Inc. and Green Mountain Power Corporation dated as of January 1, 1988;
- BB. License Agreement by and among Citizens Utilities Company, Franklin Electric Light Company, Inc., Green Mountain Power Corporation and VETCO dated as of January 1, 1988; and
- CC. Prudential Agreement by and among VETCO, Green Mountain Power Corporation, Citizens Utilities Company, Franklin Electric Light Company, Inc. and The Prudential Insurance Company of America dated as of January 1, 1988.
- DD. The Restated Use Agreement, as it exists as of the Effective Date, but not to the extent specific provisions change after the Effective Date.

Schedule 10.05(a)

<u>Section 10.05(a)(i)</u> List of GFA Impacts	<u>Source in Grandfathered Facility Agreements</u>
(A)	Phase II Note Agreement §10A
(B)	Phase I Note Agreement §§6A, G
(C)	Phase I Support Agreements §1, VETCO Capital Agreement §§4-6, VETCO Capital Support Agreement §3
(D)	Phase I Security Agreement §1.10; Phase I Note Agreement §6B; Phase I Lease §6.06; Phase II Note Agreement §10B, DMNRC License Agreement §6.05 & DMNRC Prudential Agreement §§3.2, 3.3
(E)	Phase I Support Agreements §1; Phase I Equity Funding Agreements §4; Phase II Equity Funding Agreements §7(A); Phase II Support Agreements §1
(F)	Phase I Note Agreement, Exhibit C; Phase I Support Agreements §§12, 14; Phase II Note Agreement §10G; Phase II Equity Funding Agreements §§8, 11; Phase II DC Support Agreements §§12, 14
(G)	Phase I Support Agreements §8; Phase II Support Agreements §8
(H)	Phase I Note Agreement §§5G, 8C, 8H, Phase I Security Agreement §1.03
(I)	Phase I Support Agreements §9; Phase II Support Agreements §9
(J)	Phase I Note Agreement §6D(d); Phase II Note Agreement §10G, Phase I Support Agreements §§13, 14; Phase II Support Agreements §14
(K)	Phase I Support Agreements §11; Phase II Support Agreements §11; Restated Use Agreement
(L)	Phase I Support Agreements §16; Phase II Support Agreements §14

(M)	Phase I Support Agreements §15(C); Phase II Support Agreements §15(B)
(N)	Phase I Note Agreement § 5D(b)
(O)	Phase I Note Agreement, Exhibit C; Phase II Note Agreement §§12A, 12B, SCA
(P)	Phase I Note Agreement §7A; Phase I Support Agreements §15; Phase II Note Agreement §12A; Phase II Equity Funding Agreements §12; Phase II Support Agreements §12
(Q)	Phase II Note Agreement §13B; Phase II Equity Funding Agreements §8
(R)	Phase I Security Agreement §1.03; Phase I Support Agreements §8; Phase II Support Agreements §8
(S)	Phase II Support Agreements §6
(T)	Phase I Support Agreements §§6 and 8; Phase II Support Agreements §6

Schedule 11.01

Notices

If to the ISO:

General Counsel
ISO New England Inc.
One Sullivan Road
Holyoke, MA 01040-2841
Tel: 413-535-4000
Fax: 413-535-4379
e-mail: rhepper@iso-ne.com

If to New England Hydro-Transmission Electric Company Inc., New England HydroTransmission Corporation, or New England Electric Transmission Company:

William Malee
Director
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40 Sylvan Road
Waltham, MA 02451
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If to Vermont Electric Transmission Company:

Thomas Dunn
Vice President, Transmission Services
Vermont Electric Transmission Company, Inc.
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Fax: 802-770-6449
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Schedule 11.02

Superseded Agreements