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January 9, 2004

The Honorable Magalie R. Salas
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

**Re: California Independent System Operator Corporation
Docket No. ER04-____-000
Dynamic Scheduling Letter Agreements**

Dear Secretary Salas:

Pursuant to Section 205 of the Federal Power Act, 16 U.S.C. § 824d, the California Independent System Operator Corporation ("ISO")¹ hereby submits for filing the enclosed dynamic scheduling agreements with the Bonneville Power Administration ("BPA"), and with Sempra Energy Resources ("Sempra") and Reliant Energy Services ("Reliant") as Scheduling Coordinators for the El Dorado Energy Merchant Power Plant ("El Dorado"). These agreements reflect arrangements undertaken by the ISO that constitute components of what essentially is an interim pilot program to allow the ISO to assess the ability of System Resources outside the ISO Control Area to deliver Energy imports dynamically scheduled in the ISO's Day-Ahead and Hour-Ahead Markets, as well as to participate in certain of the ISO's Ancillary Services and real-time (Supplemental Energy) markets for which associated Energy is facilitated dynamically and delivered in real time, in response to the ISO's within-the-operating hour Dispatch Instructions. The ISO requests that the Commission accept the BPA agreement effective November 12, 2003 and the Reliant and Sempra agreements effective December 4, 2003.

The ISO is currently in the process of establishing formal, generally applicable policies for dynamic transfers, based in part on its experience with arrangements that have been in place for BPA and El Dorado and a limited

¹ Capitalized terms not otherwise defined herein are used in the sense given in the Master Definitions Supplement, Appendix A to the ISO Tariff.

number of dynamic scheduling arrangements pursuant to pre-existing contracts that were in place prior to the ISO Operations Date. These policies will, when effective, establish the requirements and conditions governing the ISO's acceptance of bids and schedules for imports of Energy, Ancillary Services and associated Energy, and bids for imports of Supplemental Energy into the ISO Control Area through the use of dynamic scheduling and delivery functionality.² Once effective, the dynamic transfer policies will apply to the currently implemented functionalities with BPA and El Dorado, as well as to any other future external suppliers that may desire to implement similar arrangements and which are willing and capable of meeting the associated requirements. In the interim, the ISO has entered into letter agreements to formalize the currently implemented dynamic scheduling arrangements with BPA and El Dorado.

I. BACKGROUND

Ever since the ISO implemented Dispatch and Settlement of Energy in its markets on a ten-minute basis ("ten-minute markets"), as part of Amendment No. 29 to the ISO Tariff, the ISO has been seeking ways in which to allow imports of Energy and Ancillary Services from outside the ISO Control Area to respond to ISO Dispatch Instructions within an operating hour.³ The ISO has sought to allow such imports through the dynamic scheduling provisions of the ISO Tariff and Protocols, and through pilot program-type arrangements that accommodate the dynamic scheduling of Energy and Ancillary Services by Market Participants that may have the need and the ability to schedule and deliver these products dynamically. A "Dynamic Schedule" is defined in Section ASRP 1.2.2. of the ISO's Ancillary Services Requirements Protocol ("ASRP") as "a telemetered reading or value which is updated in real time and which is used as a schedule in the ISO EMS [Energy Management System] calculation of ACE [Area Control Error] and the integrated value of which is treated as a schedule for interchange accounting purposes." The ISO's scheduling templates for imports recognize that energy may be dynamically scheduled. See California Independent System Operator Corporation, FERC Electric Tariff, SBP 2.1.3(f), Original Sheet No. 543. Also, various provisions throughout the ISO Tariff and Protocols address the dynamic scheduling of external resources in order to provide Regulation service to the ISO.⁴

² In accordance with the Commission Orders requiring the ISO to honor pre-existing contracts, the ISO will continue to implement dynamic transfers in accordance with those agreements.

³ The Commission accepted the ISO's ten-minute market proposal in the Order on Amendment No. 29 issued on June 29, 2000. *California Independent System Operator Corporation*, 91 FERC ¶ 61,324, at 62,117-18.

⁴ ISO Tariff Section 2.5.7.4.3 provides:

Scheduling Coordinators may bid or self-provide external imports of Regulation from System Resources located outside the ISO Control Area, where technically feasible and consistent with WSCC criteria; provided that the operator of the

In addition, pursuant to certain grandfathered pre-existing contractual arrangements, the ISO has implemented dynamic scheduling arrangements for a limited number of individual generating units or plants (or entitlements to portions of units or plants) physically located outside of the ISO's Control Area.

Beyond the grandfathered pre-existing contractual arrangements, the ISO has had arrangements with three additional System Resources to accommodate the dynamic scheduling of Energy and/or Ancillary Services other than Regulation. The first two System Resources involve the El Dorado plant in the Nevada Power Company Control Area, from which Reliant and Sempra (two separate dynamic functionalities) both dynamically schedule Energy. The third resource is the System Resource of BPA from which BPA dynamically schedules Supplemental Energy and Energy associated with certain Ancillary Services (other than Regulation imports). The letter agreements submitted herewith as Attachments A, B, and C to the present filing describe the arrangements the ISO has with Reliant, Sempra, and BPA for the dynamic scheduling of Energy and Ancillary Services (other than Regulation imports) from these three System Resources.⁵

In addition, each of the attached letters explains that the ISO plans to institute a new, generally applicable dynamic transfers policy and accompanying criteria that will supplant the interim, "pilot program" arrangements. In particular, the letter agreements recognize that the new formal policy for dynamic transfers will, when effective, establish the conditions governing the ISO's acceptance of bids and schedules for imports of Energy, Energy associated with Ancillary Services, and Energy associated with bids for imports of Supplemental Energy

Control Area in which the System Resources are located has entered into an agreement with the ISO for interconnected Control Area operations and provided that such Scheduling Coordinator and the operator of the Control Area in which the resources are located have been certified by the ISO as to their ability to dynamically adjust interchange schedules based on control signals issued by the ISO anytime during a Settlement Period at the discretion of the ISO. Such certification shall include a demonstration of their ability to support the dynamic interchange of Regulation service based on ISO control signals received on dedicated communications links in accordance with ISO standards and procedures posted on the ISO Home Page.

See also ISO Tariff, §§ 2.5.27, 11.2.4.1.2(b); ASRP, §§ 4.4, 4.4.1; Schedules and Bids Protocol, §§ 2.1.3(f), 2.1.6(i)(4). Besides the ISO, a number of other entities have submitted tariff amendments and agreements to implement dynamic scheduling. See, e.g., *Commonwealth Edison Company*, 104 FERC ¶ 61,111 (2003); *PJM Interconnection, L.L.C.*, 88 FERC ¶ 61,177 (1999).

⁵ Attachment A contains a letter dated December 4, 2003 from Jim Detmers, Vice President, Grid Operations for the ISO, to Joe Rowley, Vice President of Asset Management for Sempra. Attachment B contains a letter dated December 4, 2003 from Mr. Detmers to David Brast, Senior Vice President Commercial Operations for Reliant. Attachment C contains a letter dated November 12, 2003 from Mr. Detmers to Steve Oliver, Vice President, Bulk Marketing & Transmission Services for BPA.

into the ISO Control Area through the use of dynamic scheduling and delivery functionality. Further, such policies will apply to the currently implemented functionality with BPA, Reliant and Sempra, as well as to any other future external suppliers that have the need for and may desire to implement similar arrangements and are willing and capable of meeting the associated requirements. Each of the letter agreements provides that, in the interim time period before the ISO adopts a new dynamic transfers policy, Reliant, Sempra, and BPA will operate in accordance with provisions of said agreements with the ISO, thereby formalizing Reliant's, Sempra's, and BPA's understanding regarding their current dynamic scheduling arrangements.

As indicated above, the ISO currently is in the process of developing formal, generally applicable policies for implementation of functionalities employed in dynamic transfers and delivery from System Resources described in the attached letter agreements.⁶ The ISO anticipates that these policies will be finalized in the near future. It is important to recognize that **no** new markets or market products will be created by the prospective policies, as these policies are intended primarily to categorize, classify, and clarify what types of dynamic arrangements will be supported by the ISO and how such arrangements can be implemented for differently situated requestors. To the extent these policies cannot be implemented through operating procedures, the ISO will file with the Commission any necessary revisions to the ISO Tariff.

II. DESCRIPTION OF THE LETTER AGREEMENTS

Pending the finalization of the ISO's general policies on dynamic transfers, as described above, the ISO will continue to support the existing, interim pilot program-type arrangements for implementation of dynamic Energy schedules from the El Dorado System Resources and dynamic Energy deliveries associated with bids of non-regulating Ancillary Services from BPA's System Resource. The ISO and each of the signatories to the letter agreements (on its own behalf and in its role as the Scheduling Coordinator) have agreed to the following conditions regarding scheduling Energy pursuant to the currently implemented dynamic scheduling functionality. The conditions with regard to the two El Dorado System Resources are:

1. All inter-Control Area scheduling associated with the currently implemented dynamic functionality is subject to all NERC and WECC

⁶ The ISO also intends to develop separate, formal policies applicable to the acceptance of schedules and bids from "remotely" located resources that desire to become Participating Generators and obtain Control Area services from the ISO in accordance with the ISO Tariff. Such remotely located resources are often referred to as "Pseudo" or "Remote" Ties. In the near future, the ISO anticipates that it will make a filing with the Commission to implement a "Remote Tie" pilot program to test the feasibility of and implementation issues associated with the concept of a "Pseudo" or "Remote" Ties. The ISO will also file with the Commission any agreement that it may enter into in connection with such pilot program.

policies and requirements governing inter-Control Area interchange scheduling.

2. Except for operating emergency situations, real-time energy transfers may not vary from the applicable schedules submitted in the ISO's Day Ahead or Hour-Ahead Markets by more than the greater of 5 MW or 3% of the net dependable capacity (Pmax) of the applicable ISO-mapped System Resources, integrated across a ten-minute interval (these System Resources are currently described in the ISO's Master File as MRCHNT_2_SHARE1 and MRCHNT_2_SHARE2, with a Pmax of 260.5 MW each). Deviations in dynamic Energy schedules may also be subject to financial penalties under a similar standard for Uninstructed Deviation Penalties ("UDP") that will be applicable to dynamic imports from System Resources, which was approved by FERC for future implementation by the ISO by an order issued October 22, 2003 in FERC Docket No. ER03-1046-000.
3. All real time emergency deviations from the applicable Day-Ahead or Hour Ahead Energy schedules must be reported to the ISO generation dispatcher immediately and no later than 5 minutes after such deviation(s) occur.
4. All changes in hourly Energy import schedules shall occur over the WECC standard 20-minute interchange ramp, beginning at ten (10) minutes before the start of the operating hour and concluding at ten (10) minutes after the start of the operating hour.

The conditions with regard to the BPA System Resource are:

1. All inter-Control Area scheduling associated with the currently implemented BPA System Resource functionality is subject to all NERC and WECC Policies and Requirements governing inter-Control Area interchange scheduling.
2. For any Ancillary Service or Supplemental Energy bid-associated and delivered System Resource energy, all real time emergency deviations from the energy levels stated in the applicable Day-Ahead, Hour-Ahead Ancillary Services bids, or Supplemental Energy bids must be reported to the ISO generation dispatcher immediately and no later than 5 minutes after such deviation(s) occur.
3. Ramping of energy associated with particular Ancillary Services or Supplemental Energy bids must be as stated in the applicable Day Ahead/Hour Ahead Ancillary Service bids or Supplemental Energy bids, or as otherwise agreed upon with ISO Real Time personnel.

4. Deviations in BPA's dynamic Energy schedules may be subject to applicable UDP once UDP Tariff provisions become effective.

Further, BPA and El Dorado will be subject to all applicable provisions of the ISO Tariff.

III. COMMUNICATIONS

Communications regarding this filing should be addressed to the following individuals, whose names should be placed on the official service list established by the Secretary with respect to this submittal:

Anthony J. Ivancovich Senior Regulatory Counsel California Independent System Operator Corporation 151 Blue Ravine Road Folsom, CA 95630 Telephone: (916) 608-7135	David B. Rubin Bradley M. Miliauskas Swidler Berlin Shereff Friedman, LLP 3000 K Street, Suite 300 Washington, D.C. 20007 Telephone: (202) 424-7516
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IV. EFFECTIVE DATE

The ISO respectfully requests waiver of the Commission's 60-day notice period, pursuant to Section 35.11 of the Commission's regulations, 18 C.F.R. § 35.11, to permit the agreements provided in Attachments A, B, and C to the present filing to become effective November 12, 2003 as to BPA and December 4, 2003 as to Sempra and Reliant. This waiver is necessary to permit the dynamic scheduling arrangements to be formalized as described in the agreements, in a timely manner.

V. SERVICE

The ISO has served copies of this transmittal letter, and all attachments, on the California Public Utilities Commission, the California Energy Commission, the California Electricity Oversight Board, all parties with effective Scheduling Coordinator Service Agreements under the ISO Tariff, and the Participating TOs. In addition, the ISO is posting this transmittal letter and all attachments on the ISO Home Page.

VI. ATTACHMENTS

The following documents, in addition to this transmittal letter, support this filing:

- | | |
|--------------|---|
| Attachment A | Letter dated December 4, 2003 from Jim Detmers, Vice President, Grid Operations for the ISO, to Joe Rowley, Vice President of Asset Management for Sempra |
| Attachment B | Letter dated December 4, 2003 from Mr. Detmers to David Brast, Senior Vice President Commercial Operations for Reliant |
| Attachment C | Letter dated November 12, 2003 from Mr. Detmers to Steve Oliver, Vice President, Bulk Marketing & Transmission Services for BPA |
| Attachment D | Form notice of this filing, suitable for publication in the Federal Register (also provided in electronic format) |

Two extra copies of this filing are also enclosed. Please stamp these copies with the date and times filed and return them to the messenger.

Please feel free to contact the undersigned if you have any questions regarding this matter.

Respectfully submitted,



David B. Rubin
Bradley R. Miliauskas
Swidler Berlin Shereff Friedman, LLP
3000 K Street, Suite 300
Washington, D.C. 20007

Counsel for the California Independent
System Operator Corporation

Enclosures

ATTACHMENT A



Jim Detmers
Vice President, Grid Operations

December 4, 2003

Via FedEx delivery

Joe Rowley
Vice President of Asset Management
Sempra Energy Resources
101 Ash Street
San Diego, CA 92101

RE: Dynamic Scheduling of Energy from El Dorado Energy Merchant Power Plant

Dear Mr. Rowley:

We are writing in reference to the dynamic Energy scheduling functionality that has been implemented between the California Independent System Operator (ISO) and the El Dorado Energy Merchant Power Plant (Merchant Plant) in the Nevada Power Company (Nevada) Control Area which Reliant Energy Services (Reliant) and Sempra Energy Resources (Sempra) currently use for dynamic scheduling of Energy from the Merchant Plant to the ISO Control Area. This dynamic scheduling functionality, when originally implemented by the ISO, included certain technical provisions for future implementation of imports of Regulation. It was established as the ISO's first "market based" dynamic functionality; and, as such, it has been treated as a pilot program by the ISO.

The ISO is currently in the process of establishing formal, generally applicable policies for dynamic transfers which will establish the conditions governing the ISO's acceptance of bids and schedules for imports of Energy, Ancillary Services and associated Energy, and bids for imports of Supplemental Energy into the ISO Control Area through the use of dynamic scheduling and delivery functionality, as well as the concept of "Pseudo", or "Remote", Ties. These prospective ISO policies, when effectuated, will apply to this currently implemented functionality with the Merchant Plant, as well as to any other future external suppliers that may desire to implement similar arrangements. However, in light of the past misconstructions regarding the performance requirements of the currently implemented dynamic functionality, and until such time as the prospective ISO policies become effective, the ISO has requested and Sempra has agreed to enter into this letter agreement to formalize the parties' understanding regarding the functionality currently implemented.

Pending the finalization of the prospective ISO policies discussed above, Sempra agrees to abide by all applicable ISO tariff provisions, operating procedures, standards, remedies, and penalties regarding scheduling of Energy from the Merchant Plant including the following:

1. All inter-Control Area scheduling associated with the currently implemented Merchant Plant (dynamic) functionality is subject to all NERC and WECC policies and requirements governing inter-Control Area interchange scheduling.
2. Except for operating emergency situations, real time energy transfers may not vary from the applicable schedules submitted in the ISO's Day Ahead or Hour Ahead Markets by more than the greater of 5 MW or 3% of the net dependable capacity (Pmax) of the ISO-mapped System Resource for the Merchant Plant, integrated across a ten-minute interval (this System Resource is currently described in the ISO's Master File as MRCHNT_2_SHARE2, Pmax of 260.5 MW). Deviations in Merchant Plant dynamic Energy schedules may also be subject to financial penalties under a similar standard for Uninstructed Deviation Penalties that will be applicable to dynamic imports from System Resources, which was approved by FERC for future implementation by the ISO by an order issued October 22, 2003, in FERC Docket No. ER03-1046-000.
3. All real time emergency deviations from the applicable Day Ahead or Hour Ahead Energy schedules must be reported to the ISO generation dispatcher immediately and no later than five (5) minutes after such deviation(s) occur.
4. All changes in hourly Energy import schedules shall occur over the WECC standard 20-minute interchange ramp, beginning at ten (10) minutes before the start of the operating hour and concluding at ten (10) minutes after the start of the operating hour.

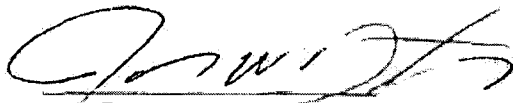
The foregoing terms will be binding until the earliest of a) the date on which an agreement is reached between the ISO and Sempra that the existing functionality and associated arrangements described herein, as currently implemented, will be discontinued; b) the date on which the prospective ISO policies on dynamic transfers become effective, at which point such policies shall supersede the foregoing terms; or c) Sempra fails to comply with the conditions set forth above subject to cure as set forth below. In the event the ISO determines that Sempra has failed to comply with the conditions set forth above, it will provide written notice to that effect to Sempra. Sempra shall have seven (7) days to cure the non-compliance or, if such non-compliance is not able to be cured, demonstrate that it has modified its operating arrangements for the Merchant Plant, including modification of any applicable procedures and policies, to ensure that such non-compliance is not repeated. If the ISO determines that Sempra has not cured the non-compliance or modified its operating arrangements, including modification of operating procedures and policies, as applicable, within seven (7) days of that notice, the ISO may, by further written notice to Sempra, terminate this agreement and the existing functionality and arrangements described herein.

Additionally, Sempra agrees to continue to use commercially reasonable best efforts to implement the functionality to deliver Regulation dynamically to the ISO Control Area.

Should Sempra desire to terminate this agreement prior to implementation of dynamic Regulation functionality or before the implementation of the prospective ISO policies described herein, it must also cause the current Merchant Plant dynamic Energy import functionality to be simultaneously terminated. Prior to implementing such termination, Sempra must provide notification to the ISO of its intent no less than seven (7) days in advance.

If you concur with the foregoing, please sign below to confirm your agreement to and acceptance of the terms of this letter agreement.

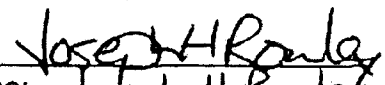
Very truly yours,



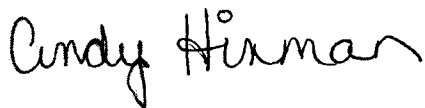
Jim Detmers
Vice President, Grid Operations

Accepted and agreed:

Sempra Energy Resources

By: 
Name: Joseph H. Rowley
Title: Vice President - Asset Management

cc: Kevin Gillespie - El Dorado Energy, Plant Manager
California ISO:
Don Fuller – Director, Billings & Settlements
Steve Greenleaf – Director, Regulatory Policy
Anthony Ivancovich – Sr. Regulatory Counsel
Jim McIntosh – Director, Grid Operations
Rich Cashdollar – Director, Engineering & Maintenance
Deane Lyon - Director, Operations Support & Training
Tracy Bibb – Director, Operations Scheduling
Yarek Lehr – Senior Engineer, Operations Support
Mike Dozier – Manager of Contracts



ATTACHMENT B



Jim Detmers
Vice President, Grid Operations

December 4, 2003

Via FedEx delivery

David Brast
Sr. Vice President Commercial Operations
Reliant Energy Services
1111 Louisiana Street
Houston, TX 77210

RE: Dynamic Scheduling of Energy from El Dorado Energy Merchant Power Plant

Dear Mr. Brast:

We are writing in reference to the dynamic Energy scheduling functionality that has been implemented between the California Independent System Operator (ISO) and the El Dorado Energy Merchant Power Plant (Merchant Plant) in the Nevada Power Company (Nevada) Control Area which Reliant Energy Services (Reliant) and Sempra Energy Resources (Sempra) currently use for dynamic scheduling of Energy from the Merchant Plant to the ISO Control Area. This dynamic scheduling functionality, when originally implemented by the ISO, included certain technical provisions for future implementation of imports of Regulation. It was established as the ISO's first "market based" dynamic functionality; and, as such, it has been treated as a pilot program by the ISO.

The ISO is currently in the process of establishing formal, generally applicable policies for dynamic transfers which will establish the conditions governing the ISO's acceptance of bids and schedules for imports of Energy, Ancillary Services and associated Energy, and bids for imports of Supplemental Energy into the ISO Control Area through the use of dynamic scheduling and delivery functionality, as well as the concept of "Pseudo", or "Remote", Ties. These prospective ISO policies, when effectuated, will apply to this currently implemented functionality with the Merchant Plant, as well as to any other future external suppliers that may desire to implement similar arrangements. However, in light of the past misconstructions regarding the performance requirements of the currently implemented dynamic functionality, and until such time as the prospective ISO policies become effective, the ISO has requested and Reliant has agreed to enter into this letter agreement to formalize the parties' understanding regarding the functionality currently implemented.

Pending the finalization of the prospective ISO policies discussed above, Reliant agrees to abide by all applicable ISO tariff provisions, operating procedures, standards, remedies, and penalties regarding scheduling of Energy from the Merchant Plant including the following:

All inter-Control Area scheduling associated with the currently implemented Merchant Plant (dynamic) functionality is subject to all NERC and WECC policies and requirements governing inter-Control Area interchange scheduling.

2. Except for operating emergency situations, real time energy transfers may not vary from the applicable schedules submitted in the ISO's Day Ahead or Hour Ahead Markets by more than the greater of 5 MW or 3% of the net dependable capacity (Pmax) of the ISO-mapped System Resource for the Merchant Plant, integrated across a ten-minute interval (this System Resource is currently described in the ISO's Master File as MRCHNT_2_SHARE2, Pmax of 260.5 MW). Deviations in Merchant Plant dynamic Energy schedules may also be subject to financial penalties under a similar standard for Uninstructed Deviation Penalties that will be applicable to dynamic imports from System Resources, which was approved by FERC for future implementation by the ISO by an order issued October 22, 2003, in FERC Docket No. ER03-1046-000.
3. All real time emergency deviations from the applicable Day Ahead or Hour Ahead Energy schedules must be reported to the ISO generation dispatcher immediately and no later than five (5) minutes after such deviation(s) occur.
4. All changes in hourly Energy import schedules shall occur over the WECC standard 20-minute interchange ramp, beginning at ten (10) minutes before the start of the operating hour and concluding at ten (10) minutes after the start of the operating hour.


The foregoing terms will be binding until the earliest of a) the date on which an agreement is reached between the ISO and Reliant that the existing functionality and associated arrangements described herein, as currently implemented, will be discontinued; b) the date on which the prospective ISO policies on dynamic transfers become effective, at which point such policies shall supersede the foregoing terms; or c) Reliant fails to comply with the conditions set forth above subject to cure as set forth below. In the event the ISO determines that Reliant has failed to comply with the conditions set forth above, it will provide written notice to that effect to Reliant. Reliant shall have seven (7) days to cure the non-compliance or, if such non-compliance is not able to be cured, demonstrate that it has modified its operating arrangements for the Merchant Plant, including modification of any applicable procedures and policies, to ensure that such non-compliance is not repeated. If the ISO determines that Reliant has not cured the non-compliance or modified its operating arrangements, including modification of operating procedures and policies, as applicable, within seven (7) days of that notice, the ISO may, by further written notice to Reliant, terminate this agreement and the existing functionality and arrangements described herein.

Additionally, Reliant agrees to continue to use commercially reasonable best efforts to implement the functionality to deliver Regulation dynamically to the ISO Control Area.

Should Reliant desire to terminate this agreement prior to implementation of dynamic Regulation functionality or before the implementation of the prospective ISO policies described herein, it must also cause the current Merchant Plant dynamic Energy import functionality to be simultaneously terminated. Prior to implementing such termination, Reliant must provide notification to the ISO of its intent no less than seven (7) days in advance.


If you concur with the foregoing, please sign below to confirm your agreement to and acceptance of the terms of this letter agreement.

Very truly yours,


Jim Detmers
Vice President, Grid Operations

Accepted and agreed

Reliant Energy Services

By:  ee
Name: David Brast
Title: Sr. VP Commercial Operations

cc: Kevin Gillespie - El Dorado Energy, Plant Manager
California ISO:
Don Fuller – Director, Billings & Settlements
Steve Greenleaf – Director, Regulatory Policy
Anthony Ivancovich – Sr. Regulatory Counsel
Jim McIntosh – Director, Grid Operations
Rich Cashdollar – Director, Engineering & Maintenance
Deane Lyon - Director, Operations Support & Training
Tracy Bibb – Director, Operations Scheduling
Yarek Lehr – Senior Engineer, Operations Support
Mike Dozier – Manager of Contracts

ATTACHMENT C



Jim Detmers
Vice President, Grid Operations

November 12, 2003

Mr. Steve Oliver
Vice President, Bulk Marketing & Transmission Services
Bonneville Power Administration
905 N.E. 11th Avenue
Portland, OR 97208

RE: Bidding of Ancillary Services and Supplemental Energy, and delivery of associated Energy from BPA's System Resource to the ISO

Dear Steve:

This letter is in follow-up to the ISO's telephone conversation with Don Wolfe on 10/31/2003 regarding the currently implemented scheduling functionality between the California ISO and Bonneville Power, Administration Power Business Line (BPA).

In 2002, the ISO and BPA began utilizing a functionality implemented on an experimental basis by the ISO in 2001 to bid Ancillary Services and Supplemental Energy to the ISO from BPA's System Resource (rather than from an individual generating resource), and for which services the associated Energy can be scheduled and delivered dynamically to the ISO in real-time. We recognize that the functionality has proven to be beneficial to both the ISO and BPA, and it has not resulted in any adverse effect on operating reliability to date. Moreover, the implementation of this functionality by the ISO and BPA has given the ISO the experience it needs to ascertain the necessary and appropriate conditions that must govern the use of this functionality to enable it to operate successfully and reliably.

As discussed by our staffs, the ISO is currently in the process of establishing formal, generally applicable policies for dynamic transfers, based in large part on our experience with the arrangement that it has employed with BPA. These policies will, when effective, establish the conditions governing the ISO's acceptance of bids and schedules for imports of Ancillary Services and associated Energy and bids for imports of Supplemental Energy into the ISO Control Area through the use of dynamic scheduling and delivery functionality as well as the concept of "Pseudo" or "Remote", Ties. Those policies will apply to

this currently implemented functionality with BPA, as well as to any other future external suppliers that may desire to implement similar arrangements and are willing and capable of meeting the associated requirements. In the interim, the ISO considers it important to enter into this letter agreement to formalize the parties' understanding regarding the functionality currently implemented.

Pending the finalization of the ISO's policies described above, the ISO will continue supporting the existing functionality as a pilot arrangement, provided that BPA agrees that the following conditions, as well as all applicable provisions of the ISO Tariff, will apply to the continuation of that functionality:

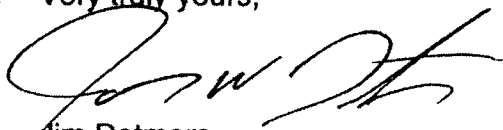
1. All inter-Control Area scheduling associated with the currently implemented BPA System Resource functionality is subject to all NERC and WECC Policies and Requirements governing inter-Control Area interchange scheduling.
2. For any Ancillary Service or Supplemental Energy bid-associated and delivered System Resource energy, all real time emergency deviations from the energy levels stated in the applicable Day Ahead, Hour Ahead Ancillary Services bids, or Supplemental Energy bids must be reported to the ISO generation dispatcher immediately and no later than 5 minutes after such deviation(s) occur.
3. Ramping of energy associated with particular Ancillary Services or Supplemental Energy bids must be as stated in the applicable DA/HA Ancillary Service bids or Supplemental Energy bids, or as otherwise agreed upon with ISO Real Time personnel.
4. Deviations in BPA's dynamic Energy schedules may be subject to applicable uninstructed deviation penalties ("UDP") once UDP Tariff provisions become effective.

The foregoing terms will be binding until such time as: a) agreement is reached between the ISO and BPA that the existing functionality and associated arrangements described herein, as currently implemented, will be discontinued; b) the ISO's general policies on implementation of like or similar functionalities and arrangements are issued and go into effect, after acceptance by FERC, if applicable, at which point those general policies shall supersede the foregoing terms; or c) BPA fails to comply with the conditions set forth above. In the event the ISO determines that BPA has failed to comply with the conditions set forth above, it will provide written notice to that effect to BPA. BPA shall have seven (7) days to cure the non-compliance. If the ISO determines that BPA has not cured the non-compliance within seven (7) days of that notice, the ISO may, by further written notice to BPA, terminate this agreement and the existing functionality and arrangements described herein.

Should BPA desire to terminate this agreement prior to implementation of the prospective ISO policies described herein that may or will be binding on performance of the currently implemented functionality, it must also cause the currently implemented functionality and arrangement with the ISO described herein to be simultaneously terminated. Prior to implementing such termination, BPA must provide notification to the ISO of its intent no less than seven (7) days in advance.

If you concur with the foregoing, please sign below to confirm your agreement to and acceptance of the terms of this letter.


Very truly yours,



Jim Detmers
Vice President, Grid Operations

Accepted and agreed:

Bonneville Power Administration

By: 

Name: Stephen R. Oliver

Title: Vice President, Belle Fourche Marketing

cc:

BPA - Don Wolfe

ISO - Don Fuller

Steve Greenleaf

Anthony Ivancovich

Jim McIntosh

Rich Cashdollar

Deane Lyon

Tracy Bibb

Yarek Lehr

Keoni Almeida

ATTACHMENT D

C.F.R. § 385.2001(a)(1)(iii) and the instructions on the Commission's web site under the "e-Filing" link. The Commission strongly encourages electronic filings.

Comment Date: _____