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November 12, 2004

The Honorable Magalie Roman Salas
Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington, DC 20426

**Re: California Independent System Operator Corporation
Docket No. ER05-___-000**

Non-Conforming Rate Schedule No. 40

Dear Secretary Salas:

Pursuant to Section 205 of the Federal Power Act ("FPA"), 16 U.S.C. § 824d, the California Independent System Operator Corporation ("ISO")¹ submits for Commission filing and acceptance Amendment No. 3 to the Interconnected Control Area Operating Agreement ("ICAOA") between the ISO and Nevada Power Company ("NEVP").

The ISO is requesting a waiver of the 60-day prior notice requirement to allow Amendment No. 3 to the ICAOA to be made effective as of October 27, 2004, the date of its execution.

¹ Capitalized terms not otherwise defined herein have the meanings set forth in the ICAOA.

I. Purpose of the Interconnected Control Area Operating Agreement and Amendment No. 3

The ICAOA is designed to assist the ISO and NEVP in coordinating the operation and maintenance of their interconnected Control Areas in a manner consistent with North American Electric Reliability Council criteria, Western Electricity Coordinating Council Minimum Operating Reliability Criteria, and Good Utility Practice. Amendment No. 3 to the ICAOA is designed to facilitate these functions.

The ISO originally filed the ICAOA with NEVP on April 25, 2000 in Docket No. ER00-2292-000. The Commission accepted the ICAOA by letter order issued June 23, 2000. The ISO filed Amendment No. 1 to the ICAOA with NEVP on May 8, 2001 in Docket No. ER01-1995-000 to implement various revisions, including the change in Control Area boundary related to the new Merchant Intertie between the ISO and NEVP. Amendment No. 1 to the ICAOA was accepted by the Commission and made effective as of January 17, 2001. The ISO filed Amendment No. 2 to the ICAOA with NEVP on May 26, 2004 in Docket No. ER04-885-000 to incorporate requirements for the scheduling and delivery of regulation service into the ISO Control Area from the NEVP Control Area. Amendment No. 2 to the ICAOA was accepted by the Commission by letter order issued July 21, 2004 and was made effective as of May 14, 2004. The ICAOA with NEVP has been designated as FERC Rate Schedule No. 40.

II. Revisions Incorporated in Amendment No. 3 to the ICAOA

The primary purpose of Amendment No. 3 to the ICAOA is to incorporate requirements for the scheduling and delivery of non-regulation ancillary services into the ISO Control Area from the NEVP Control Area. The following summarizes the above revision, as well as other specific revisions incorporated in Amendment No. 3:

- A new Section ICAA 5.4 is added to the ICAOA as follows:

ICAA 5.4 Import of Dynamically Scheduled Energy and Non-Regulation Ancillary Services by ISO

The ISO and NEVP shall allow for the import of dynamically scheduled energy and non-regulation ancillary services from the NEVP Control Area to the ISO Control Area in accordance with the provisions of Service Schedule 17. NEVP shall be under no obligation to supplement the import of dynamically scheduled energy and non-regulation ancillary services contracted by third parties to be delivered to the ISO Control Area from resources in the NEVP Control Area and shall have the right to terminate Service Schedule 17 without prior approval of the ISO, subject to NEVP

providing the ISO a copy of the termination letter pursuant to the agreement(s) NEVP has entered into with third parties to facilitate the import of dynamically scheduled energy and non-regulation ancillary services into the ISO Control Area. NEVP shall notify the ISO and provide to the ISO a copy of such termination letter a minimum of thirty (30) days prior to such termination.

- A new Service Schedule 17 is added to the Agreement, the terms of which conform to the *pro forma* version of that Service Schedule as accepted by the Commission in conjunction with ISO Tariff Amendment No. 59² with the following exceptions:
 - References to the ISO's "Standards" are replaced with references to the ISO's Dynamic Scheduling Protocol, consistent with the ISO's July 29, 2004 compliance filing in response to the Commission's order on Amendment No. 59.
 - Section 5.2 is modified to provide that e-tagging will be implemented to the extent not inconsistent with NERC and WECC requirements.
 - Section 7 is modified to provide that the list of dynamically scheduled System Resources will change as agreed by the parties, rather than listing particular dynamic scheduling arrangements in the ICAOA.

III. Request for Waiver

The ISO respectfully requests a waiver of the Commission's 60-day prior notice requirement, pursuant to Section 35.3 of the Commission's regulations, 18 C.F.R. § 35.3, to allow the enclosed materials to become effective as of October 27, 2004, the date of execution of Amendment No. 3. Granting the waiver will permit the ISO and NEVP to coordinate the operation and maintenance of their interconnected Control Areas better, which will enhance power system reliability. Granting the requested waiver, therefore, is appropriate.

² Amendment No. 3 incorporates Service Schedule 17 dynamic scheduling provisions that are modified from the *pro forma* version of the version of Service Schedule 17 that was included with the filing of Amendment No. 59 to the ISO Tariff ("Amendment No. 59"). Amendment No. 59 was filed in Docket No. ER04-793 on April 30, 2004 and accepted in *California Independent System Operator Corporation*, 107 FERC ¶ 61,329 (2004). See Amendment No. 59 at Attachment F and Transmittal Letter for Amendment No. 59 at 3.

IV. Expenses

No expense or cost associated with this filing has been alleged or judged in any judicial or administrative proceeding to be illegal, duplicative, unnecessary, or demonstratively the product of discriminatory employment practices.

V. Correspondence

The ISO requests that all correspondence, pleadings, and other communications concerning this filing be served upon the following individuals:

John Anders*
Deborah A. Le Vine³
The California Independent System
Operator Corporation
151 Blue Ravine Road
Folsom, CA 95630
Tel: (916) 351-4400
Fax: (916) 608-7222

David B. Rubin*
Julia Moore
Swidler Berlin Shereff Friedman, LLP
3000 K Street, N.W.
Suite 300
Washington, DC 20007
Tel: (202) 424-7500
Fax: (202) 424-7643

* Individuals designated for service pursuant to Rule 203(b)(3),
18 C.F.R. § 385.203(b)(3).

VI. Service

Copies of this filing have been served on NEVP, the California Public Utilities Commission, and all entities on the official service lists for the original ICAOA in Docket No. ER00-2292-000, Amendment No. 1 to the ICAOA in Docket No. ER01-1995-000, and Amendment No. 2 to the ICAOA in Docket No. ER04-885-000.

³ In addition to Mr. Anders and Mr. Rubin, the ISO respectfully requests that Ms. Le Vine be included on the Official Service List. Mr. Anders and Ms. Le Vine work in separate buildings, and it would be of considerable assistance to the ISO if both were included on the list.

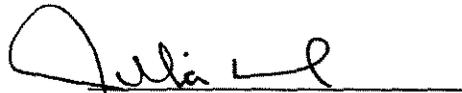
VII. Supporting Documents

Enclosed for filing are six copies of each of the following:

- 1) the executed Amendment No. 3 to the Interconnected Control Area Operating Agreement between the ISO and NEVP (Attachment A);
- 2) the revised pages of the Interconnected Control Area Operating Agreement, which incorporate the changes made to (a) the body of the agreement, and (b) the new Service Schedule 17, and which are in a format that complies with the Commission's order in *Designation of Electric Rate Schedule Sheets*, Order No. 614, FERC Stats. and Regs. ¶ 31,096 (2000) (Attachment B);
- 3) a document showing the revisions to the Interconnected Control Area Operating Agreement, as described above at 2), in black-line format (Attachment C); and
- 4) a Notice of Filing suitable for publication in the Federal Register, together with an electronic version of the Notice (Attachment D).

An additional copy of this filing is enclosed to be date-stamped and returned to our messenger. If there are any questions concerning this filing, please contact the undersigned.

Respectfully submitted,



Charles F. Robinson
General Counsel
John Anders
Corporate Counsel
California Independent System
Operator Corporation
151 Blue Ravine Road
Folsom, CA 95630

David B. Rubin
Julia Moore
Swidler Berlin Shereff Friedman, LLP
3000 K Street, NW
Suite 300
Washington, DC 20007

Attorneys for the California Independent
System Operator Corporation

ATTACHMENT A

**CALIFORNIA INDEPENDENT SYSTEM OPERATOR
AND
NEVADA POWER COMPANY**

**AMENDMENT NO. 3
TO THE
INTERCONNECTED CONTROL AREA OPERATING AGREEMENT**

THIS AMENDMENT NO. 3 is effective as of October 27, 2004 and is entered into by and between:

(1) **Nevada Power Company (NEVP)** having its registered and principal executive office at 6226 West Sahara Avenue, Las Vegas, NV 89146;

and

(2) **California Independent System Operator Corporation (ISO)**, a California nonprofit public benefit corporation having a principal executive office located at such place in the State of California as the ISO Governing Board may from time to time designate, initially 151 Blue Ravine Road, Folsom, CA 95620.

NEVP and the ISO are hereinafter referred to as the "Parties."

Whereas:

- A.** The Parties are signatories to an Interconnected Control Area Operating Agreement dated March 21, 2000 (the "Agreement"), as amended by Amendment No. 1 and Amendment No. 2.
- B.** The Parties desire to amend the Agreement to incorporate the requirements for the dynamic scheduling and delivery of energy and non-regulation ancillary services into the ISO Control Area from the NEVP Control Area.
- C.** In all other respects, the Parties intend that the Agreement remain in full force and effect in accordance with its terms.

NOW THEREFORE, **THE PARTIES AGREE** as follows:

- 1. Termination.** This Amendment No. 3 shall remain in full force and effect until the termination of the Agreement.
- 2. Amendment to the Agreement.** The Agreement shall be amended as follows:

2.1 A new Section ICAA 5.4 is added as follows:

"ICAA 5.4 Import of Dynamically Scheduled Energy and Non-Regulation Ancillary Services by ISO

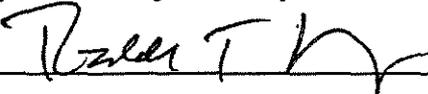
The ISO and NEVP shall allow for the import of dynamically scheduled energy and non-regulation ancillary services from the NEVP Control Area to the ISO Control Area in accordance with the provisions of Service Schedule 17. NEVP shall be under no obligation to supplement the import of dynamically scheduled energy and non-regulation ancillary services contracted by third parties to be delivered to the ISO Control Area from resources in the NEVP Control Area and shall have the right to terminate Service Schedule 17 without prior approval of the ISO, subject to NEVP providing the ISO a copy of the termination letter pursuant to the agreement(s) NEVP has entered into with third parties to facilitate the import of dynamically scheduled energy and non-regulation ancillary services into the ISO Control Area. NEVP shall notify the ISO and provide to the ISO a copy of such termination letter a minimum of thirty (30) days prior to such termination."

2.2 A new Service Schedule 17, attached to this Amendment No. 3, is added to the Agreement.

3. This Amendment No. 3 constitutes the complete and final agreement of the Parties with respect to the purpose of this Amendment No. 3 as described in the Recitals hereto and supersedes all prior understandings, whether written or oral, with respect to such subject matter.
4. Except as expressly modified in this Amendment No. 3, the Agreement shall remain in full force and effect in accordance with its terms, and the unmodified provisions of the Agreement shall apply to any new rights and/or obligations established by this Amendment No. 3.
5. This Amendment No. 3 may be executed in one or more counterparts at different times, each of which shall be regarded as an original and all of which, taken together, shall constitute one and the same agreement.

IN WITNESS WHEREOF, the Parties have caused this Amendment No. 3 to be duly executed by and through their respective authorized representatives as of the date hereinabove written.

California Independent System Operator Corporation

By: 

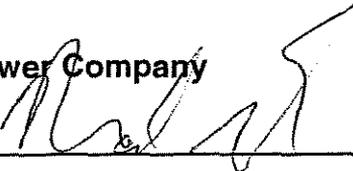
Name: Randall T. Abernathy

Title: Vice President,
Market Services

Date: 10/27/04



Nevada Power Company

By: 

Name: Mark Shank

Title: Director, Transmission Operations

Date: 10/12/04

SERVICE SCHEDULE 17

**INTER-CONTROL AREA REQUIREMENTS
FOR SCHEDULING AND DYNAMIC DELIVERY OF ENERGY, SUPPLEMENTAL
ENERGY, AND ENERGY ASSOCIATED WITH NON-REGULATION ANCILLARY
SERVICES TO THE ISO**

1. General

- 1.1 Purpose. This Service Schedule 17 sets forth the requirements that must be satisfied by Nevada Power Company (referred to herein as the "Host Control Area") should it elect to support Scheduling Coordinators' requests for implementation of a dynamic scheduling functionality and delivery of energy, supplemental energy, and energy associated with ancillary services (except regulation service) into the ISO Control Area. The requirements encompass technical (energy management system ("EMS")/automatic generation control ("AGC") and communications), interchange scheduling, telemetry, and aspects of interconnected Control Area operations.
- 1.2 NERC/WECC Operating Standards Observed. Nothing in this Service Schedule 17 is intended to change, supercede, or alter either Party's obligations to abide by NERC standards and policies and WECC criteria.
- 1.3 Applicable Standards. This Service Schedule 17 incorporates, by reference, the ISO's *Dynamic Scheduling Protocol* ("DSP") posted on the ISO internet home page: "www.caiso.com".
- 1.4 Meaning of "System Resource". "System Resource" is defined in the ISO Tariff and, in the context of this Service Schedule 17, may include combinations of resources as described in the DSP.

2. Telecommunications Requirements

The ISO and Host Control Area shall establish and maintain real time, redundant, diversely routed, communications links between the ISO EMS and the Host Control Area EMS, with the primary link utilizing the standard inter-control center communications protocol ("ICCP") in accordance with the DSP.

3. Telemetry

For each operating hour for which a System Resource is scheduled to deliver energy, supplemental energy, and/or energy associated with any of the non-regulating ancillary services to the ISO Control Area, the Host Control Area shall

provide, via the ICCP communication links to the ISO EMS, the data for each System Resource as set forth in the DSP.

4. Interchange Scheduling Requirements

- 4.1 Dynamic Scheduling. The Host Control Area shall support Scheduling Coordinators' requests to arrange dynamic interchange schedules for the delivery of energy to the ISO Control Area, reflecting the System Resource's instantaneous energy production or allocation level and taking into account available transmission capacity.
 - 4.2 Treatment of Area Control Error ("ACE"). The Host Control Area shall instantaneously compensate its AGC for the System Resource's energy output that is generated or allocated for establishing the dynamic schedule to the ISO such that the System Resource energy production or allocation changes have an equal in magnitude and opposite in sign effect on the Host Control Area's ACE.
 - 4.3 Integration of Dynamic Scheduling. For each operating hour during which energy was dynamically scheduled for delivery to the ISO Control Area, the Host Control Area shall compute an integrated amount of interchange based on the System Resource's integrated energy production, by integrating the instantaneous System Resource production levels. Such integrated MWH value shall be agreed to hourly by the real time schedulers.
 - 4.4 Delivery of Megawatts ("MW"). The Host Control Area shall not be obligated to make up any difference between the dynamic energy schedule and the MW being generated or allocated by the System Resource.
 - 4.5 Access to Information. The Parties agree to exchange information related to telemetry sent and received with respect to the delivery of energy (i) at the request of the other Party for purposes of after-the-fact interchange accounting or (ii) on demand for any other purpose.
- #### **5. Other Host Control Area Responsibilities**
- 5.1 Operational Jurisdiction. The Host Control Area will have, at a minimum, the level of operational jurisdiction over the System Resource and the associated dynamic schedule that NERC and WECC vest in Host Control Areas.
 - 5.2 E-Tagging. The Host Control Area must support associated e-tagging as described in the DSP to the extent such e-tagging is deemed not to be inconsistent with NERC and/or WECC requirements.
 - 5.3 Real-Time Adjustments. The Host Control Area must have a means to manually override and/or otherwise adjust the dynamic signal in real time, if needed.

5.4 Coordination with Other Control Areas. The Host Control Area must provide in real time the instantaneous value of each dynamic schedule to every intermediary Control Area through whose systems such dynamic schedule may be implemented to the ISO.

6. Other

6.1 Losses. The ISO shall not be responsible for transmission losses caused by transmitting energy dynamically within or across the Host Control Area for delivery to the ISO.

6.2 Certification. Only ISO-certified System Resource/Host Control Area arrangements will be allowed to bid or self provide ancillary services in the ISO's ancillary services market through an ISO-certified Scheduling Coordinator.

6.3 No Guarantee of Award. Certification of a System Resource/Host Control Area arrangement allows for bidding of supplemental energy and/or certain ancillary services into the ISO market; it does not, however, guarantee selection of such bid.

6.4 Performance Assessment. The ISO will monitor and measure dynamically imported ancillary services, whether bid or self-provided, against the performance benchmarks described in the DSP.

7. CONSENT TO IMPLEMENTATION OF DYNAMIC SYSTEM RESOURCES

Each dynamically scheduled System Resource shall be permitted pursuant to this Service Schedule 17 only upon the written consent of both the Host Control Area and the ISO, which written consent may be communicated by e-mail, and only if the System Resource is subject to a Dynamic Scheduling Agreement for Scheduling Coordinators with the ISO.

ATTACHMENT B

ICAA 5.4 Import of Dynamically Scheduled Energy and Non-Regulation Ancillary Services by ISO

The ISO and NEVP shall allow for the import of dynamically scheduled energy and non-regulation ancillary services from the NEVP Control Area to the ISO Control Area in accordance with the provisions of Service Schedule 17. NEVP shall be under no obligation to supplement the import of dynamically scheduled energy and non-regulation ancillary services contracted by third parties to be delivered to the ISO Control Area from resources in the NEVP Control Area and shall have the right to terminate Service Schedule 17 without prior approval of the ISO, subject to NEVP providing the ISO a copy of the termination letter pursuant to the agreement(s) NEVP has entered into with third parties to facilitate the import of dynamically scheduled energy and non-regulation ancillary services into the ISO Control Area. NEVP shall notify the ISO and provide to the ISO a copy of such termination letter a minimum of thirty (30) days prior to such termination.

ICAA 6 OUTAGE COORDINATION

ICAA 6.1 Maintenance Coordination

Outages of facilities affecting the Interconnection shall be jointly coordinated by the ISO, NEVP, and the Transmission Owner(s) to minimize a reduction and the duration of such reduction to the operating limits of the Interconnection. The ISO and NEVP shall provide each other reasonable notice of Planned Outages and scheduled maintenance affecting the Interconnection in advance.

The ISO and NEVP shall review Planned Outages and scheduled maintenance to determine the feasibility of initiating the switching process. If, given the current or anticipated system conditions at the

SERVICE SCHEDULE 17

INTER-CONTROL AREA REQUIREMENTS

FOR SCHEDULING AND DYNAMIC DELIVERY OF ENERGY, SUPPLEMENTAL ENERGY, AND ENERGY ASSOCIATED WITH NON-REGULATION ANCILLARY SERVICES TO THE ISO

1. General

- 1.1 **Purpose.** This Service Schedule 17 sets forth the requirements that must be satisfied by Nevada Power Company (referred to herein as the "Host Control Area") should it elect to support Scheduling Coordinators' requests for implementation of a dynamic scheduling functionality and delivery of energy, supplemental energy, and energy associated with ancillary services (except regulation service) into the ISO Control Area. The requirements encompass technical (energy management system ("EMS")/automatic generation control ("AGC") and communications), interchange scheduling, telemetry, and aspects of interconnected Control Area operations.
- 1.2 **NERC/WECC Operating Standards Observed.** Nothing in this Service Schedule 17 is intended to change, supercede, or alter either Party's obligations to abide by NERC standards and policies and WECC criteria.
- 1.3 **Applicable Standards.** This Service Schedule 17 incorporates, by reference, the ISO's *Dynamic Scheduling Protocol* ("DSP") posted on the ISO internet home page: "www.caiso.com".
- 1.4 **Meaning of "System Resource".** "System Resource" is defined in the ISO Tariff and, in the context of this Service Schedule 17, may include combinations of resources as described in the DSP.

2. Telecommunications Requirements

The ISO and Host Control Area shall establish and maintain real time, redundant, diversely routed, communications links between the ISO EMS and the Host Control Area EMS, with the primary link utilizing the standard inter-control center communications protocol ("ICCP") in accordance with the DSP.

3. Telemetry

For each operating hour for which a System Resource is scheduled to deliver energy, supplemental energy, and/or energy associated with any of the non-regulating ancillary services to the ISO Control Area, the Host Control Area shall provide, via the ICCP communication links to the ISO EMS, the data for each System Resource as set forth in the DSP.

4. Interchange Scheduling Requirements

- 4.1 Dynamic Scheduling. The Host Control Area shall support Scheduling Coordinators' requests to arrange dynamic interchange schedules for the delivery of energy to the ISO Control Area, reflecting the System Resource's instantaneous energy production or allocation level and taking into account available transmission capacity.
- 4.2 Treatment of Area Control Error ("ACE"). The Host Control Area shall instantaneously compensate its AGC for the System Resource's energy output that is generated or allocated for establishing the dynamic schedule to the ISO such that the System Resource energy production or allocation changes have an equal in magnitude and opposite in sign effect on the Host Control Area's ACE.
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5. Other Host Control Area Responsibilities

- 5.1 Operational Jurisdiction. The Host Control Area will have, at a minimum, the level of operational jurisdiction over the System Resource and the associated dynamic schedule that NERC and WECC vest in Host Control Areas.

- 5.2 E-Tagging. The Host Control Area must support associated e-tagging as described in the DSP to the extent such e-tagging is deemed not to be inconsistent with NERC and/or WECC requirements.
- 5.3 Real-Time Adjustments. The Host Control Area must have a means to manually override and/or otherwise adjust the dynamic signal in real time, if needed.
- 5.4 Coordination with Other Control Areas. The Host Control Area must provide in real time the instantaneous value of each dynamic schedule to every intermediary Control Area through whose systems such dynamic schedule may be implemented to the ISO.

6. Other

- 6.1 Losses. The ISO shall not be responsible for transmission losses caused by transmitting energy dynamically within or across the Host Control Area for delivery to the ISO.
- 6.2 Certification. Only ISO-certified System Resource/Host Control Area arrangements will be allowed to bid or self provide ancillary services in the ISO's ancillary services market through an ISO-certified Scheduling Coordinator.
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- 6.4 Performance Assessment. The ISO will monitor and measure dynamically imported ancillary services, whether bid or self-provided, against the performance benchmarks described in the DSP.

7. CONSENT TO IMPLEMENTATION OF DYNAMIC SYSTEM RESOURCES

Each dynamically scheduled System Resource shall be permitted pursuant to this Service Schedule 17 only upon the written consent of both the Host Control Area and the ISO, which written consent may be communicated by e-mail, and only if the System Resource is subject to a Dynamic Scheduling Agreement for Scheduling Coordinators with the ISO.

ATTACHMENT C

BLACKLINE SHOWING AMENDMENT 3 REVISIONS

ICAA 5.4 Import of Dynamically Scheduled Energy and Non-Regulation Ancillary Services by ISO

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SERVICE SCHEDULE 17

INTER-CONTROL AREA REQUIREMENTS

FOR SCHEDULING AND DYNAMIC DELIVERY OF ENERGY, SUPPLEMENTAL ENERGY, AND ENERGY ASSOCIATED WITH NON-REGULATION ANCILLARY SERVICES TO THE ISO

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supplemental energy, and energy associated with ancillary services (except regulation service) into the ISO Control Area. The requirements encompass technical (energy management system ("EMS")/automatic generation control ("AGC") and communications), interchange scheduling, telemetry, and aspects of interconnected Control Area operations.

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1.3 Applicable Standards. This Service Schedule 17 incorporates, by reference, the ISO's *Dynamic Scheduling Protocol* ("DSP") posted on the ISO internet home page: "www.aiso.com".

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Area and the ISO, which written consent may be communicated by e-mail, and only if the System Resource is subject to a Dynamic Scheduling Agreement for Scheduling Coordinators with the ISO.

ATTACHMENT D

the instructions on the Commission's web site under the "e-Filing" link. The Commission strongly encourages electronic filings.

Comment Date: _____