



CALIFORNIA ISO

California Independent
System Operator

February 3, 2003

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

[PUBLIC VERSION]

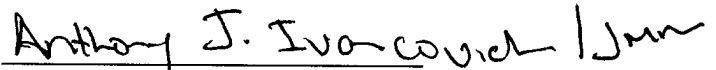
**Re: California Independent System Operator Corporation,
Docket No. ER02-1656-009, 010 and 011 and Investigation of
Wholesale Rates of Public Utility Sellers of Energy and
Ancillary Services in the Western Systems Coordinating
Council, Docket No. EL01-68-017**

Dear Secretary Salas:

Enclosed for filing in the above-captioned dockets, please find the Status Report of the California Independent System Operator Corporation ("ISO") in which the confidential information has been redacted.

Simultaneous with the instant filing, the ISO is submitting a version of the Status Report that contains confidential information. In the instant version of the Status Report, the confidential information, *i.e.*, **Attachment A**, has been redacted. In all other respects, the version of the Status Report to be released publicly is identical to the version of the Status Report that contains confidential information.

Respectfully submitted,

Handwritten signature of Anthony J. Ivancovich in black ink.

Charles F. Robinson
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Operator Corporation
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Attorneys for the California Independent
System Operator Corporation

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

California Independent System Operator Corporation)	Docket No. ER02-1656-000
)	
)	
Investigation of Wholesale Rates of Public Utility Sellers of Energy and Ancillary Services in the Western Systems Coordinating Council)	Docket No. EL01-68-017
)	
)	

**STATUS REPORT OF THE
CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION**

The California Independent System Operator Corporation (“ISO”)¹ respectfully submits this monthly progress report (“Report”) in compliance with the Commission’s November 27, 2002 “Order Clarifying The California Market Redesign Implementation Schedule”, 101 FERC ¶ 61,266 (2002) (“November 27 Order”), issued in the above-referenced dockets.

The November 27 Order required the ISO to file reports on the first Monday of each month, beginning in January 2003, to update the Commission on the ISO’s progress in designing and implementing the ISO’s Market Redesign (“MD02”). The Commission directed the ISO to file a full MD02 implementation plan, including a detailed timeline with the sequential and concurrent nature of the design elements, the software and vendors (once selected) to be used and the cost estimates for each element. The November 27 Order required that the first report include explanations of the following: (1) any alternative methods of

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

developing MD02 elements; (2) the ISO's progress in developing MD02 elements; (3) the action required to establish such elements; and (4) a detailed breakdown of the total start-up costs.² The Commission directed the ISO to update the MD02 implementation plan on a monthly basis, indicating the progress made and the upcoming steps.

On January 10, 2003, the ISO filed its first Status Report in compliance with the November 27 Order. The instant Report is intended to satisfy the monthly reporting requirement in the November 27 Order, update the information included in the January 10, 2003 Status Report and generally advise the Commission of the current status of MD02 implementation.

I. FEBRUARY STATUS REPORT

This, the second MD02 Status Report will provide the format for all future updates to the Commission. Specifically, Section A includes a narrative of the significant changes to the MD02 Program Plan – High Level schedule that occurred since the filing of the prior month's Status Report. Section B includes a narrative regarding the MD02 budget along with an updated Budget Tracking and Status Report.³ The Budget Tracking and Status Report is contained in **Attachment A** (Attachment D in the first Status Report). **Attachment A** must remain confidential at least until the ISO has negotiated and contracted with bidders for significant portions of the required functionality. In that regard, it would not be commercially prudent to reveal estimates of vendor costs prior to negotiation and contracting with successful bidders. Section C identifies the

² November 27, Order at P 9.

ISO's key MD02 implementation issues including the previous month's accomplishments, major milestones, upcoming activities, issue resolution with stakeholders and items requiring timely resolution by the Commission in order to meet the project schedule.

A. Current Project Timeline

Phase IB: Implementation of Phase IB⁴ is currently behind its June 1, 2003 implementation date by approximately six weeks, primarily due to final resolution and incorporation of Design Walkthrough (and other design-related) issues into the Detailed Statement of Work ("DSOW"). A new target implementation date has not been set and depends on the following: (1) finalization of the DSOW, (2) discussion with ISO Operations on the feasibility of implementing Phase IB during or after summer⁵, and (3) evaluation of testing and market simulation.

Phases II and III: The ISO has conducted two daylong combined Phase II and Phase III Design Walkthroughs in which business units of the ISO examined the details of the design for accuracy, workability and integration. Because of the additional issues identified during internal Design Walkthroughs, the scheduled release date of February 5th for the Integrated Forward Market/Locational Marginal Pricing using the Full Network Model Request for

³ The narrative includes only non-confidential information.

⁴ Phase IB involves implementing software that (1) contains an economic dispatch algorithm to clear overlapping Real-Time Energy bids continuously so that there will be a single price in each ten-minute interval, and (2) allows, *inter alia*, generators to modify unit availability in Real-Time and enable the ISO to impose penalties for uninstructed deviations.

Proposals (“IFM/LMP RFP”) is being reassessed. The ISO intends to resolve these additional outstanding issues at an upcoming Design Walkthrough on February 5, 2003. Additionally, the ISO is reviewing policy issues with stakeholders prior to release of the IFM/LMP RFP. As discussed in greater detail in Section C.3 *infra*, the ISO will be seeking stakeholder input on these issues over the next couple of weeks. A revised IFM/LMP RFP release date will be finalized in early February. The ISO will not be able to assess whether the new IFM/LMP RFP release date will impact the overall implementation schedule for Phase II and Phase III until vendor responses for software systems are received, a bidder is selected, and the ISO has agreed on a development schedule with the successful bidder. Additionally, the final schedule will also depend on the Commission’s approval of the ISO’s revised market design, which will be submitted for approval in mid-March.

B. MD02 Budget Update

Attachment A -- the Budget Status and Tracking Report (which remains confidential) -- compares actual expenditures to forecast expenditures. Specifically, **Attachment A** shows the budgeted amounts, the amounts authorized by the Board of Governors, the amounts that have been approved through the internal ISO accounting process, and actual expenditures to date. There have been no significant changes to the MD02 budget since filing the first

⁵ As a general rule, the ISO has avoided making major modifications to its software systems during summer peak load conditions, since it is critical for those systems to function correctly under those conditions.

Status Report, and expenditures continue to remain within the projected cost of the overall program.

C. Key Issues

1. Stakeholder Participation

In its January 10, 2003 Status Report the ISO submitted to the Commission a list of 55 design issues identified in the Working Groups and Joint Application Design (“JAD”) sessions. All but nine of the issues were resolved with JAD participant as of the first Status Report. Three of these issues were being discussed with JAD participants during the timeframe that the first Status Report was being prepared last month, but were not finalized until after the ISO filed the Status Report. Therefore, the ISO would like to update the Commission in this month’s Status Report about the following issues: (1) the Congestion Revenue Rights (“CRRs”) scheduling priority and whether CRR and non-CRR schedules should remain balanced under uneconomic pro rata curtailment; (2) whether the ISO should implement a flag for balanced self-schedules; and (3) the timing of the Hour Ahead (“HA”) Market and whether there should be an opportunity for re-bid of Imbalance Energy after publication of final HA schedules⁶.

JAD Participants recommended that CRR holders should have a scheduling priority and remain balanced under uneconomic pro rata curtailment. No flag would be necessary because the system will automatically maintain the balance of CRR schedules. JAD Participants also recommended that non-CRR

self-schedules should not remain balanced under uneconomic Pro Rata Curtailment. Therefore, no flag is necessary for these transactions.

Regarding the HA Market timeline issue, several JAD participants felt strongly that the T-60 timeline, as originally filed with the Commission, was the best solution without a re-bid period. However, they agreed that if the ISO moved further away from the T-60 timeline, a re-bid period would be necessary. After further discussion, a majority of the JAD participants recommended that the Hour Ahead timeline should allow for a re-bid period, and the HA Market should close at T-120, with the re-bid period occurring from T-90 through T-60. Technical considerations, such as processing time for the HA and Real-Time (“RT”) markets, drive the requirement that there be a significant timing separation between the markets.

The above recommendations were presented to the ISO Market Design Steering Committee (“MDSC”), an ISO internal policy group, on January 9, 2003. After discussion, the MDSC made the following recommendations:

- For Issues 1 and 2: the IFM/LMP RFP will include the functionality for options to accommodate scheduling priorities. However, no specific types of schedules eligible for priority will be identified at this time.
- For Issue 3: the Hour Ahead Market will close at T-120 minutes and will allow for a re-bid period, subject to specified activity rules.

⁶ These issues correspond to issues nos. 6, 10 and 11 in Attachment F-- MD02 Topics Discussed in Working Group and JAD Sessions -- that was filed with the January Status Report.

Of the 55 issues included in last month's Status Report, the ISO identified eight as being "configurable" design elements.⁷ These "configurable" design elements are primarily inputs or outputs to the market system functionality and, as such, must be resolved prior to market testing of the software (which is the validation of specific results of the market design). Final resolution of these issues needs to occur in the July 2003 time period, which will allow time for continued stakeholder input on the unresolved issues. The majority of the remaining 34 issues are informational in nature and do not require any specific action.

2. Design Walkthroughs

The MD02 Project Management Office ("PMO") completed two Design Walkthroughs on January 21, 2003 and January 27, 2003 with the various internal business units of the ISO. A Design Walkthrough gives the business units of the ISO the opportunity to review the design for accuracy, workability and integration and to identify and resolve any remaining design issues that need to be included in the IFM/LMP RFP. A total of 39 issues were identified at the January 21st Walkthrough. In the subsequent days, the MD02 Phase II and Phase III teams worked closely with the business units to resolve these issues. At the January 27th meeting all but 13 issues were resolved. The MD02 teams continue to work through these issues, which will be presented at a Design Walkthrough on Wednesday, February 5th. These issues must be resolved before the IFM/LMP RFP is released.

⁷ These issues correspond to issue nos. 12-19 in Attachment F-- MD02 Topics Discussed

3. Continuation of the Stakeholder Process to Resolve Technical and Policy Issues

The ISO has been using the JAD process to engage stakeholders in technical discussions about *how* to implement market design changes; however, the ISO has found that the focused JAD process is an insufficient forum for policy issues that resurface during these sessions. JAD sessions, which include representation from a broad group of constituents including technical representatives that understand software limitations, are an industry-accepted method of bringing users together to discuss design features of software development. To be effective, the number of participants in these groups must be limited, and the ISO has sought to assure that all classes of market participants are represented. However, the ISO cannot accommodate every request for participation. Limited participation has become a concern for those stakeholders that are not participating directly, especially because there is not always a bright line between resolution of design issues and policy issues. It is not uncommon during JAD sessions that, when working through design details, the participants uncover a technical limitation that requires reconsideration of a policy issue or precipitates a policy issue that was not previously considered.

To accommodate stakeholder dialogue as policy issues emerge in an efficient manner, the ISO is in the process of piloting a Stakeholder On-Line Forum with the communications firm that was used for the 2001 Congestion Management Reform (“CMR”) process. The ISO sent out a Market Notice on January 31st explaining the three-phase process the ISO will use to receive and

in Working Groups and JAD Sessions.

consider stakeholders' input on the open IFM/LMP policy issues (See Attachment B -- ISO Market Notice Stakeholder Review Process – IFM LMP Policy Issues). The first phase, which begins February 5th, is the web-based Stakeholder On-Line Forum that presents the issues and options for resolution, allows dialogue on possible solutions and, where possible, allows stakeholders to state their preferences among options for resolving the issues. The second phase, which takes place on February 12th, is an in-person meeting at the ISO to review positions identified through the Stakeholder On-Line Forum and further discussion on non-consensus positions. Finally, the ISO will resolve the outstanding issues, incorporating stakeholder input. If this pilot is successful, it is the intent of the ISO to continue using the Stakeholder On-Line Forum and in-person meetings for policy issues and JAD Participants for the technical issues throughout the MD02 implementation process.

While involving a broader audience, communicating the reasons why certain decisions were made and timely disseminating information can facilitate general consensus among stakeholders, it is not likely that all issues will be resolved in a timely manner to the satisfaction of every market participant. To the extent that an issue remains contentious after being vetted through this process, the ISO will present a proposed solution based on the recommendation of its internal policy process and a determination of what resolution best fits into the overall design.

4. U.S. Department Of Energy

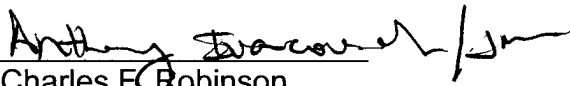
As requested by Commission staff, the ISO contacted the Department of Energy (“DOE”) to determine if they would be in the position to assist the ISO in determining the adequacy of its control area metering for the full network model. The DOE contact was only aware of the joint effort that the ISO, California Energy Commission and DOE has underway to advance the collection of transmission system data during system disturbances. While this method could ultimately be used to collect data for the purpose of real-time state estimation, the current effort is not yet advanced to this level.

After contacting the DOE, the ISO is not aware of any other outreach effort that the DOE contemplates to provide assistance to the ISO for assessing the validity of current state estimation efforts. As reported in the January Status Report, the ISO has been successful in resolving its state estimator problems. The ISO will continue to refine the state estimator and anticipates that it will provide an accurate foundation for the full network model.

II. CONCLUSION

In Section I of this Report, the ISO has responded to the Commission's request for specific information on progress, critical issues, budget and alternative methods for the MD02 implementation effort. The ISO appreciates having the opportunity to comment and report on the progress being made in MD02.

Respectfully submitted,



Charles F. Robinson
Anthony Ivancovich

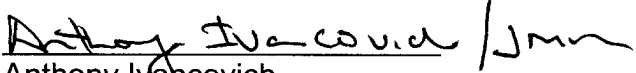
Counsel for the California Independent
Operator Corporation

Dated: February 3, 2003

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon the Public Utilities Commission of the State of California, upon all parties of the official service lists maintained by the Secretary for Docket Nos. ER02-1656-000 and EL01-68-017.

Dated at Folsom, California, this 3rd day of February, 2003.


Anthony Ivanovich
The California Independent System
Operator Corporation
151 Blue Ravine Road
Folsom, California 95630

ATTACHMENT A

**Privileged Information Has Been Redacted
Pursuant to 18 C.F.R. § 388.112**

ATTACHMENT B

From: CRCommunications
Sent: Friday, January 31, 2003 4:31 PM
To: ISO Market Participants
Subject: CAISO Notice: Stakeholder Review Process - Open IFM & LMP Policy Issues

MARKET NOTICE

January 31, 2003

Stakeholder Review Process - Open IFM & LMP Policy Issues

ISO Market Participants:

In December, 2002, the ISO and Stakeholders participated in Joint Application Development (JAD) sessions to begin working together to address and resolve many technical issues related to MD02 Phase II and III - issues related to the Integrated Forward Markets (IFM) and Locational Marginal Pricing (LMP) using the Full Network Model (FNM). The sessions were extremely productive and the participants resolved almost all of the issues addressed. However, some of the issues extended beyond the technical basis of the JAD sessions into policy considerations. The ISO has developed a process that will allow interested Stakeholders to participate in reviewing and recommending solutions to these policy issues over the next two weeks or so.

Process

The ISO will use a three-phase process to receive and consider Stakeholders' input on the open IFM/LMP issues:

- The first phase will begin with a web-based Stakeholder On-Line Forum to present the issues and options for resolution, allow dialogue on possible solutions and, where possible, allow Stakeholders to state their preferences among options for resolving the issues. Most of the issues are not new and much information regarding them has been available for some time on the ISO web site and elsewhere. Thus, Stakeholders will be able quickly to understand the issues and consider options for resolving the issues. In addition, the web-based tool will allow Stakeholders to state their positions for others to review and to comment on others' positions. The ISO expects that most of the dialogue in reviewing issues will occur through the Stakeholder On-Line Forum.
- The second phase will involve an in-person meeting at the ISO to review positions identified through the Stakeholder On-Line Forum and to complete discussions on non-consensus positions.
- Finally, the ISO will recommend solutions on outstanding issues, based on all input received through the previous phases. Where necessary, we will propose solutions to the ISO Governing Board for approval.

Stakeholder Participation

This process is open to all Stakeholders who would like to participate. In order to participate in the

Stakeholder On-Line Forum, each user will need a password which will be assigned as described below. The ISO asks, however, that if more than one person representing an entity (corporation, agency, municipality, etc.) participates in the forum, the entity will designate a single representative who is authorized to state their position when the ISO polls participants for positions on proposed issue resolutions. All Stakeholders may participate at the in-person meeting.

Schedule

The schedule for this review process will be as follows:

- | | |
|---------------------------------------|--|
| Monday, February 3: | Interested stakeholders request passwords for Stakeholder On-Line Forum |
| Wednesday, February 5: | Passwords and link to URL for Stakeholder On-Line Forum distributed to participants. Stakeholder On-Line Forum available for review, comment and polling |
| Monday, February 10, Noon: | Deadline for comments on Stakeholder On-Line Forum |
| Wednesday, February 12, 10:00 - 5:00: | Stakeholder meeting at ISO Headquarters, Folsom, Board Room |
| Thursday, February 20: | ISO Governing Board consideration of solutions (if needed) |

Next Steps

If you would like to participate in the Stakeholder On-Line Forum and the Stakeholder meeting, please send an e-mail to Julia Payton at jpayton@caiso.com <<mailto:jpayton@caiso.com>> no later than close of business on Monday, February 3. Your e-mail should include your first name, last name, affiliation and your e-mail address. In addition, if your organization will have more then one participant, please designate the person who will be able to represent your organization in polls.

If you have questions or would like additional information, please contact Byron Woertz at bwoertz@caiso.com <<mailto:bwoertz@caiso.com>> or (916) 608-7066.

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