



CALIFORNIA ISO

California Independent
System Operator

May 3, 2004

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

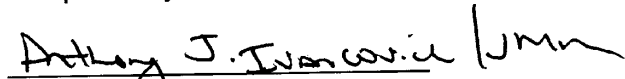
**Re: California Independent System Operator Corporation,
Docket No. ER02-1656-009, 010 and 011 and Investigation of
Wholesale Rates of Public Utility Sellers of Energy and
Ancillary Services in the Western Systems Coordinating
Council, Docket No. EL01-68-017**

Dear Secretary Salas:

Enclosed for filing in the above-captioned dockets, please find the Status Report of the California Independent System Operator Corporation ("ISO") that will be released to the public.

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 B**, 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 Charles F. Robinson in black ink.

Charles F. Robinson
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Attorneys for the California Independent
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**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 market redesign effort. The Commission directed the ISO to file a full market redesign implementation plan, including a detailed timeline with the sequential and concurrent nature 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.

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 developing market redesign elements; (2) the ISO's progress in developing the market redesign 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 market redesign 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. Subsequent to the first filing, the ISO continues to file monthly Status Reports with the Commission on the first Monday of each month. The instant Report is intended to satisfy the monthly reporting requirement in the November 27 Order, update the information included in prior Status Reports and generally advise the Commission of the current status of the market redesign implementation effort.

I. MAY STATUS REPORT

Sections A and B include a narrative of the significant changes to the "Program Plan – High Level" schedule activity that have occurred since the filing of the prior month's Status Report. Section C includes a narrative regarding the budget along with an updated Budget Tracking and Status Report³. Section D identifies the ISO's key market redesign implementation issues including the

² November 27 Order at P 9.

³ The narrative includes only non-confidential information.

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. Phase IB Status

Overall: There are a number of elements to Phase IB: two key elements include providing the ISO operators better certainty that dispatch quantities will be delivered, and dispatch that seeks pricing efficiency rather than simple merit order. ISO operator uncertainty will be addressed through the assessment of penalties if generators do not respond within a defined tolerance band. Pricing efficiency will be achieved through the elimination of separate prices that currently exist by establishing a single price for each dispatch interval.

The ISO brought KEMA Consulting on board in January 2004 to manage the MD02 Program, including Phase IB. Since that time and as reported in the April 5, 2004 Status Report, the Phase IB project plan was revised and efforts were re-directed to successfully implement Phase IB market design changes⁴. The progress of Phase IB is being tracked on a weekly basis through status meetings. The focus of these meetings is threefold: (1) identify critical areas that might impact the schedule, (2) receive a status update on each task and (3) identify tasks for a 60-day look ahead. Critical areas are given top priority and a contingency plan is developed to bring the task back on track.

⁴ At the March 26, 2004 Board of Governors meeting, the Board directed ISO Management to conduct an assessment of the underlying causes of the delay of the Phase IB implementation date. The document, MD02 Phase 1B – Root Cause Analysis Report, is Attachment B of this report and shall remain confidential.

The development phase of the Phase IB applications was completed the last week of April 2004. The next step in the implementation process is the testing phase, which is divided into three components: (1) execution of the application and integration test cases, (2) load and performance testing and (3) failover/fallback testing. The application and integration testing includes the following tasks: (a) develop approximately 300 application test cases (completed by the last week of April 2004), (b) execute the application test cases, (c) review test case results and retest as needed, (d) regression testing, (e) final retesting as needed, and (f) operational testing. Execution of the application test cases was started the last week of April 2004 and is scheduled for completion mid-July 2004.

The second component, load and performance testing, is scheduled to begin the first week of June 2004. The load and performance testing tasks include: (a) develop approximately 100 test scripts, (b) dry run of the test scripts, (c) execute the test scripts, (d) analyze test results and (e) rerun as needed. The entire process is scheduled for completion the first week of July 2004.

The third and final component of the testing phase, failover/fallback, will begin the third week of May 2004. This component includes the following tasks: (a) testing the failover of the Phase IB systems, (b) fallback to the ISO's Alhambra facilities and execute test scripts to validate load conditions, (c) analyze results and (d) rerun as needed. The entire failover/fallback testing is scheduled for completion the first week of July 2004.

The ISO will provide a “sandbox” environment to Market Participants beginning the second week of June 2004. The sandbox is a lightweight test environment with external access to provide Market Participants with the ability to connect to Phase IB interfaces prior to the restart of Market Simulation, including Scheduling Infrastructure (“SI”), Automated Dispatch System (“ADS”) and Scheduling and Logging for the ISO of California (“SLIC”). This gives Market Participants the ability to test their own functionality and have their systems ready once Market Simulation begins the third week of July.

Phase IB remains on track for a Fall 2004 implementation. Once the testing phase is completed, the ISO will be in a better position to apprise the Commission of the final “go-live” date.

Phase IB Weekly Conference Calls: The ISO conducted three conference calls during the month of April. The calls provided (1) Phase IB updates, (2) discussion of Energy Calculation Whitepaper⁵, and (3) discussion of the Energy Compensation During Start-Up Discussion Paper⁶. The conference calls are open to all market participants and are structured to keep stakeholders informed about the progress of Phase IB implementation and to respond to questions.

B. Integrated Forward Market/Locational Marginal Pricing Status

In the April 1, 2004 Status Report, the ISO reported that final detailed design was targeted for early May 2004. The most recent schedule from

⁵ The Energy Calculation Whitepaper was posted to the ISO website at: <http://www.caiso.com/docs/2004/04/15/200404150955481675.pdf>

Siemens indicates the design phase will be completed in late May 2004. In anticipation of the design completion, the ISO is planning design review sessions with Siemens to provide feedback and reach final approval of Siemens design documentation. In addition, the ISO is continuing to receive feedback on its discussion papers related to the outcome of the Commission's technical conference regarding Residual Unit Commitment ("RUC"), a simplified Hour Ahead market, and the revised Market Power Mitigation proposal⁷, which will be included in the ISO's filing in May.

C. Market Redesign Budget Update

Attachment A -- the Budget Status and Tracking Report is not being provided this month, as the overall program budget has not received Board approval. The Program Manager and the independent consultant presented a complete assessment of the overall MD02 program at the April 22, 2004 Board of Governors meeting. ISO Management will be discussing its proposed re-formatted Budget Status and Tracking Report with Commissioners and Commission staff prior to providing this information in future monthly Status Reports. The Budget Status and Tracking Report will remain confidential until such time that the information contained in the report does not disclose confidential business information or jeopardize the ISO's negotiations with vendors regarding implementation of the market redesign.

⁶ The Energy Compensation During Start-Up Discussion Paper was posted to the ISO website at: <http://www.caiso.com/docs/2004/04/22/2004042209133119765.pdf>

⁷ The FERC Technical Conference was held in San Francisco from March 3-5, 2004. The discussion papers and comments are posted on the ISO website at: <http://www.caiso.com/docs/2004/03/19/200403191439158079.html>.

D. Key Issues

1. Settlements and Market Clearing Request for Proposals

At the April 22, 2004 Board meeting, ISO management received approval to replace the Settlements and Market Clearing systems. Specifically, the Board authorized ISO Management to execute contracts with the two preferred vendors. The first vendor will provide the Settlements functionality and the second vendor will provide a Market Clearing system.

The ISO has made the determination that the Settlements and Market Clearing systems should be implemented in a staged approach to reduce the risk to the ISO, vendor and Market Participants. The first stage will implement the existing Settlements charge types (which will include those required for the new Phase IB functionality) simultaneously with the new market clearing functionality. The final stage will reconfigure the system for implementation of IFM/LMP.

A staged approach means that the expected benefits from the replacement of the Settlements system would be achieved over a year earlier than if implemented with the other MD02 systems. Additional benefits include automation of reruns and manual charges, improved outputs and transparency of data to market participants, and support for payment acceleration initiatives. This staged approach will also allow functions to be tested in parallel with the current Settlements system prior to the system going live, thereby providing more assurance to market participants of correct operation.

2. Congestion Revenue Rights (“CRR”) Study

The ISO posted the first draft of the “CRR Study 2 - Proposed Processes, Input Data and Modeling Assumptions”⁸ to its website on February 5, 2004. The ISO identified two objectives for the CRR Study 2. The first objective is to determine the coverage of CRRs based on requests submitted by Load Serving Entities (“LSEs”) in the allocation process. The second is to address the financial effectiveness in hedging congestion costs for LSEs.

The ISO held two CRR Study 2 meetings during the month of April. The first meeting was held on April 13, 2004 to discuss comments and questions submitted by Market Participants regarding the first draft of the CRR Study 2. The second meeting, held on April 27, 2004, focused on the development of scenarios to be used in the study.

The ISO is offering a third round of CRR educational classes⁹ from May 4-6, 2004 and Market Participants have the option to either attend in person or via web conferencing. The CRR educational classes are designed to provide Market Participants the opportunity to learn the basics associated with CRRs.

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 market redesign implementation effort. The ISO

⁸ Information pertaining to the CRR Study effort can be found on the ISO website at: <http://www.aiso.com/docs/2004/01/29/2004012910343827511.html>

⁹ The first and second rounds of CRR Educational classes were offered on February 17-19, 2004 and March 16-18, 2004, respectively.

appreciates having the opportunity to comment and report on the progress being made on its market redesign.

Respectfully submitted,

Anthony J. Ivancovich / JMM
Charles F. Robinson
Anthony J. Ivancovich

Counsel for the California Independent
Operator Corporation

Dated: May 3, 2004

ATTACHMENT A

Attachment A is not being provided this month. Please see Status Report at page 6.

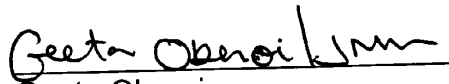
ATTACHMENT B

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

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 May 2004.



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