



# CALIFORNIA ISO

California Independent  
System Operator

September 2, 2003

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 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,

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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”)<sup>1</sup> 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 a report 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 the design elements, the software and vendors (once selected) to be used, and

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

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.<sup>2</sup> 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 a monthly Status Report 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. SEPTEMBER STATUS REPORT**

Section A includes a narrative of the significant changes to the "Program Plan – High Level" schedule that have occurred since the filing of the April 7, 2003 Status Report. Section B includes a narrative regarding the budget along with an updated Budget Tracking and Status Report.<sup>3</sup> The Budget Tracking and Status Report is contained in Attachment A. Attachment A continues to 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

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<sup>2</sup> November 27 Order at P 9.

commercially prudent to reveal estimates of vendor costs prior to negotiation and contracting with successful bidders. Section C identifies the ISO's key market redesign 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:** In the August 4, 2003 Status Report, the ISO reported that the Commission granted an extension of time until August 12, 2003, for parties to submit comments to the Phase IB Tariff language, *i.e.*, Amendment No. 54 to the ISO Tariff. The ISO filed its responses to the comments on Amendment 54 with the Commission on August 27, 2003. Some of the areas of concern the ISO responded to included 1) allocation of above market costs to load, 2) Minimum Load Cost Compensation to Metered Subsystems ("MSS"), 3) pricing rules relative to performance, and 4) adequacy of modeling constraints.

The ISO and its vendor increased resources assigned to testing to ensure that system and integration testing of the Phase IB functionality is completed by November 3, 2003. At that time, the ISO will commence market simulation, with Phase IB implementation scheduled for February, 2004.

**Phases II and III:** The ISO continues contract negotiations with the preferred vendors selected for both the IFM/LMP and Congestion Revenue Rights ("CRR") functionality with the understanding that in both instances the

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<sup>3</sup> The narrative includes only non-confidential information.

underlying deliverables are subject to Commission approval of the Market Design Amendment filed on July 22, 2003 and contract approval by the ISO Board of Governors. The calendar for completing contract negotiations remains consistent with the Commission comment and review period. Once the ISO obtains the approvals from the Commission and the ISO Board of Governors, the ISO will finalize an implementation schedule for Phase II and Phase III and post this schedule to the ISO website.

## **B. Market Redesign 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 ISO Board of Governors ("Board"), the amounts that have been approved through the internal ISO accounting process, and actual expenditures to date.

## **C. Key Issues**

### **1. Settlements and Market Clearing Request for Proposals**

The four internal ISO Staff teams representing Project Management, Information Services, Business Requirements, and Commercial Viability continue to evaluate the four qualified vendor responses to the Settlements and Market Clearing Request for Proposals ("Settlements RFP"). From July 31, 2003 through August 14, 2003, the ISO conducted four two-day vendor demonstrations and interviews. The teams continue to review vendor responses to questions asked during the demonstrations with a vendor recommendation

currently slated for mid-September 2003. The ISO will keep the Commission apprised of the vendor selection process in subsequent Status Reports and any effect on the overall schedule since Settlements software is a critical dependency in implementing LMP. No contract will be signed until approved by the ISO Board of Governors.

## **2. Phase IB Technical Issues**

The ISO Phase IB team held two technical conference calls during the month of August. For the August 26, 2003 technical conference call, the ISO posted for discussion the Settlements Calculations White Paper – Version 1.5, which incorporated stakeholders' input from previous technical conference calls. At the August 12, 2003 conference call, the ISO responded to questions pertaining to the OASIS Whitepaper posted to the ISO website on August 11, 2003. The whitepaper outlined the changes associated with the deployment of the Phase IB – Real Time Market Applications system.

## **3. Locational Marginal Pricing Studies**

ISO Staff continues working on implementation issues related to the alternating current (“AC”) power flow model, including challenges associated with network modeling, recognition of network constraints (RMR dispatch and nomograms) and data quality in areas outside of California that appear to affect successful modeling. Staff resources designated for the Locational Marginal Pricing (“LMP”) studies continue to be required for work on other high priority market redesign efforts, which have caused some delays in this effort. The ISO

is assessing this resource issue and now anticipates providing preliminary results from the third LMP price dispersion study during September 2003.

#### **4. Congestion Revenue Rights Study**

The ISO continues to analyze the Congestion Revenue Rights Study results. To assist the ISO in verifying the study results, the ISO retained a vendor to develop a tool, which was received on August 26, 2003. Upon completion of the analysis, the CRR Study results will be released to those Market Participants who provided data to the ISO. The ISO Staff continues to work with the California Public Utilities Commission (“CPUC”) to ensure coordination with their long-term responsibilities concerning CRR allocation.

#### **5. Congestion Revenue Rights Workshop**

The ISO and the CPUC jointly sponsored a workshop on Congestion Revenue Rights on August 25, 2003. The purpose of the workshop was to provide an opportunity for California stakeholders to hear firsthand the experiences of parties using congestion-hedging instruments in markets operating under the LMP paradigm. Topics discussed included hedging congestion costs using source-to-sink rights, obligations versus options rights, and determining the set of rights needed for effective hedging by a load-serving entity. Representatives of PJM Interconnection, Public Service Electric & Gas, National Grid, New York ISO, and Midwest ISO were willing to share their experiences with hedging instruments and respond to questions from an overflow audience.

## **6. CPUC Procurement Proceedings**

On October 25, 2001 the CPUC opened Rulemaking 01-10-024 to establish ratemaking mechanisms to permit California's largest utilities, Pacific Gas and Electric Company, San Diego Gas & Electric Company, and Southern California Edison Company, to resume procurement of energy. In that proceeding, the CPUC directed the utilities to file long-term procurement plans to apply in 2004 and beyond.

Hearings on these plans, and on the resource adequacy requirements that should be imposed on the utilities and Energy Service Providers ("ESP"), were held at the CPUC from July 21 - August 18, 2003. The ISO participated actively in these hearings arguing that a clear and enforceable resource adequacy requirement should be imposed that would require the utilities and ESPs to procure between 90-95% of their capacity requirements (projected peak load plus planning reserves) by a year ahead, and 100% of their capacity requirements (projected monthly peak load plus planning reserves) no later than one month ahead. Briefs and Reply Briefs are due September 12 and September 19, 2003, respectively. A draft decision is targeted for November 18, 2003, with a decision scheduled for mid-December 2003.



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

Respectfully submitted,



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Counsel for the California Independent  
Operator Corporation

Dated: September 2, 2003

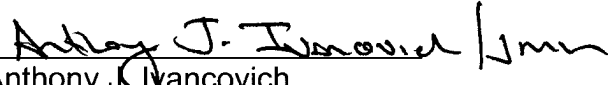
## ATTACHMENT A

**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 and 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 2<sup>nd</sup> day of September 2003.

  
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