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October 29, 2002

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

Re: *California Independent System Operator Corporation*
Docket Nos. ER02-1656-000

***Investigation of Wholesale Rates of Public Utility Sellers of
Energy and Ancillary Services in the Western Electricity
Coordinating Council***
Docket No. EL01-68-017

Dear Secretary Salas:

Enclosed please find an original and 14 copies of the Request for Technical Conference of the California Independent System Operator Corporation in the above-captioned docket. Two additional copies of this filing are enclosed to be stamped with the date and time of filing and returned to our messenger. If there are any questions concerning this filing, please contact the undersigned.

Respectfully submitted,


Julia Moore

Counsel 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
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)	
Investigation of Wholesale Rates of Public Utility Sellers of Energy and Ancillary Services in the Western Systems Coordinating Council)	Docket No. EL01-68-017
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REQUEST FOR TECHNICAL CONFERENCE REGARDING THE MARKET DESIGN 2002 PROPOSAL IMPLEMENTATION PLAN AND SCHEDULE AND DISCUSSION OF RELATED WESTERN MARKET DESIGN AND IMPLEMENTATION ISSUES

The California Independent System Operator Corporation ("CAISO")¹ hereby submits a Request for Technical Conference regarding the Market Design 2002 ("MD02") implementation plan and schedule in the captioned proceeding.

In support hereof, the CAISO respectfully states as follows:

I. BACKGROUND

Pursuant to the "Order on the California Comprehensive Market Redesign Proposal" issued by the Federal Energy Regulatory Commission ("Commission") on July 17, 2002 in the captioned proceeding,² the Commission Staff convened a technical conference in San Francisco on August 13-15, 2002. Issues discussed at the MD02 Technical Conference included, *inter alia*, the implementation schedule of the MD02 Phases II and III proposals. At the MDO2 Technical

¹ Capitalized terms not otherwise defined herein are defined in the Master Definitions Supplement, ISO Tariff Appendix A, as filed on August 15, 1997, and subsequently revised.

² *California Independent System Operator Corporation, et al.*, 100 FERC ¶ 61,060 (2002) ("July 17th Order").

Conference, the CAISO described the different stages of its MD02 implementation plan and set forth what, at the time, was a realistic but aggressive timeline for implementing the integrated Day-Ahead market and other Phase II market reforms. The parties spent a significant amount of time discussing the appropriate timeline for implementing the Phases II and III proposals and the specific market design elements that might be implemented in each Phase. At the end of the MD02 conference, the Commission Staff directed: (1) intervenors to file comments regarding the CAISO's implementation proposal and the technical conference process going forward by August 23, 2002 and (2) the CAISO to file reply comments by August 27, 2002. On August 23 and 27, 2002, Market Participants and the CAISO, respectively, submitted comments to the Commission.³

Based on the discussions at the MD02 Technical Conference and subsequent discussions with Market Participants, the CAISO's August 27th comments ("Reply Comments") outlined three "technically feasible" options for implementing Phase II of the MD02 proposal, but, in the end, recommended that the full integrated forward market be implemented in the Spring of 2003, as originally proposed.

On September 20, 2002, the CAISO filed Supplemental Comments regarding the MD02 implementation schedule wherein the CAISO indicated that it would support deferral of the proposed integrated day-ahead market until Fall 2003 provided that

³ The following parties' comments on the August 13-15, 2002 Technical Conference have been posted on the Commission's FERRIS web site or otherwise obtained by the ISO: California Department of Water Resources State Water Project ("SWP"); California Municipal Utilities Association ("CMUA"); City of Santa Clara ("Santa Clara"); Dynegy Power Marketing, Inc., El Segundo Power, LLC, Cabrillo Power I LLC and Cabrillo Power II LLC (collectively, "Dynegy"); Energy Users Forum ("EUF"); Independent Energy Producers ("IEP"); Mirant Americas Energy Marketing, LP, Mirant California, LLC, Mirant Delta, LLC, and Mirant Portrero, LLC (collectively, "Mirant"); the Northern California Power Agency ("NCPA"); Pacific Gas and Electric Company ("PG&E"); Sempra Energy; Southern California Edison ("SCE"); and Williams Energy Marketing and Trading Company ("Williams").

certain specified operating requirements were satisfied by Summer 2003. The CAISO submitted the Supplemental Comments in light of “the need for a meaningful and deliberate stakeholder process and adequate testing of new software and systems ... [and] in order to ensure that the Commission has before it the requisite information and input to render a meaningful decision.” Supplemental Comments at 4-5.

On October 11, 2002, the Commission issued an order⁴ that, among other things, granted the CAISO's request to defer implementation of the full integrated forward market until Fall 2003, but directed the CAISO to relax its Market Separation constraint and Balanced Schedule requirement so as to permit Market Participants to submit unbalanced load and supply bids to the CAISO, thereby facilitating a forward market for both transmission and energy. The October 11th Order directed the CAISO to establish such a market by January 31, 2003.

II. REQUEST FOR TECHNICAL CONFERENCE

The CAISO's MD02 initiative is an ambitious effort to redesign, and thus sustain, the California electricity market. Concurrently, RTO West and Westconnect, the RTOs developing in the Pacific Northwest and the Desert Southwest, respectively, also have filed for and received tentative approval of market design proposals for their respective regions. In addition, the Commission itself is endeavoring to define, through its own rulemaking process, a Standard Wholesale Market Design for the entire country. These efforts all share a common purpose -- to develop efficient electricity markets that serve the needs of end-use customers. Sharing that common purpose, the need for close and meaningful coordination among and between all these efforts is paramount. No

⁴ *California Independent System Operator Corp., et al.*, 101 FERC ¶ 61,061 (2002) (“October 11th Order”).

regional market can stand alone – all electricity markets within a common electrical interconnection provide both reliability and economic benefits to each other.

The Commission clearly recognizes the benefits of interregional coordination to create a seamless energy market. In its October 25, 2002 “Notice Announcing Process For Western Interconnection Market Design And Postponing Technical Conference” (“October 25th Notice”), the Commission recognized that “some flexibility in RTO timelines may be required” to accommodate a process for resolving seams issues. Specifically, the Commission requested that the Seams Steering Group – Western Interconnection (SSG-WI)

...develop a list of recommended market design elements appropriate for the western interconnect (i.e., balancing market, transmission rights, planning process, etc.), which elements must be designed compatibly to avoid seams, and a plan and timeline for resolution of these issues that is coordinated with RTO development efforts.

October 25th Notice at 2.

In light of the pressing need to align, to the extent possible, the three proposed RTOs’ market design and implementation efforts and the need to allocate and deploy all parties’ resources in an efficient manner, the CAISO requests that the Commission immediately convene a technical conference to discuss publicly the CAISO’s specific plan for implementing its MD02 proposal and for all interested parties in the West to discuss how best to design and implement electricity markets in the West. At a minimum, the Commission should convene such a conference so that the CAISO can inform all affected parties of the MD02 implementation timeline, the basis for the proposed timeline, and the potential ramifications, from both a market and systems

perspective, of implementing various features of its proposed design in the manner proposed.

Since its inception, the CAISO's MD02 effort has been focused on remedying known deficiencies in the CAISO's markets and creating a foundation for future and sustained investment in California's critical energy infrastructure. To try to achieve those goals in an expeditious manner, the CAISO has proposed very aggressive timelines for implementing its proposed market redesign features. More than anything, those proposed implementation timelines were driven by the CAISO's keen desire to remedy existing problems at the earliest possible date. As such, the original, and certain of the more recent, MD02 implementation date estimates and commitments made by the CAISO did not reflect a "best practices" approach to system design and testing. As the Commission is aware, the design, development and testing of the software and systems necessary to support a market design proposal is a time consuming and, by necessity, a methodical process. Short cuts inevitably lead to mistakes, design flaws and, ultimately, higher costs for consumers. The ISO, like many public and private entities, is under increased scrutiny of its business practices and as a result is applying additional rigor to its software systems acquisition and development activities.

Unfortunately, the CAISO believes that the directive in the October 11th Order that the CAISO relax the market separation rule and eliminate the balanced schedule requirement by January 31, 2003 will force the CAISO once again to proceed down a path that leaves it open to increased liability. The CAISO takes full responsibility for that directive. The Commission took action based on the record evidence before it.

Regrettably, the record was inaccurate and incomplete. Following the October 11th Order, the CAISO has re-examined the feasibility of relaxing the balanced schedule requirement and the market separation rule and concluded that it is impossible to do so by January 31, 2003. Moreover, the CAISO's efforts to update the record evidence in this case came too late and were inadequate.

While the CAISO intends to seek rehearing of the Commission's directive to relax the market separation rule and the balanced schedule requirement by January 31, 2003, the CAISO requests that the Commission convene the above-requested technical conference as a means to ensure that the Commission and all interested parties understand clearly the construct of the CAISO's existing software and business system platform, the state of those systems and platform, the CAISO's proposed open architecture objectives, the CAISO's business objectives with respect to market redesign and the problems the CAISO is facing with respect to MD02 implementation. As noted above, the CAISO is striving to implement a "best practices" approach to systems development. A rational and thorough software and system design and development process will lead to a better, and more cost-effective, implementation effort and market design. The CAISO believes that the Commission, too, supports adoption of such a process and that it is imperative that the CAISO and the Commission come to a common understanding of the significant issues associated with implementation of the various elements of the CAISO's proposed market redesign.

Proposed Technical Conference Structure

In order to ensure that the proposed technical conference is as productive as possible, the CAISO requests that the conference be highly structured and include, among others, the following topics:

- 1) Overview of the existing CAISO systems architecture and software platform;
- 2) Overview of existing CAISO market application software;
- 3) Assessment of the functionality and reliability of the CAISO's existing software systems;
- 4) Summary of the CAISO's open architecture and modular design objectives;
- 5) Overview of the CAISO's "best practices" approach to market implementation:
 - i. Design
 - ii. Specification
 - iii. Sourcing
 - iv. Development
 - v. CAISO Testing
 - vi. Market Testing
- 6) Overview of MD02 Implementation Timeline:
 - i. Best Practices
 - ii. Higher Risk

The CAISO proposes to provide a detailed presentation with respect to each of the identified topics and then allow for a discussion period with Commission staff and selected industry participants. The desired outcome of the presentation material and subsequent discussion would be a common understanding of the CAISO's existing systems and the proposed new system design and agreement on a prudent approach to market design implementation. In addition, the CAISO hopes the technical conference will lay the foundation of understanding as to how the CAISO's MD02 implementation

efforts could affect the implementation plans and timeline of the other proposed RTOs in the West.

The proposed technical conference should provide a basic understanding of the dependencies and variables that define and constrain the CAISO's MD02 implementation plan. One such dependency and constraint is securing the necessary regulatory approvals. Absent Commission approval of the requisite tariff language the CAISO cannot prudently proceed with implementation. Currently, the Commission has approved only limited aspects of the CAISO's MD02 proposal. Recognizing that the Commission previously directed the CAISO to engage in further discussions with stakeholders to resolve contested market design issues,⁵ the length of any such stakeholder process is necessarily limited by the amount of time required to implement the proposal, ideally in accordance with a "best practices" implementation schedule. For example, assuming an implementation date of October 2003 for a particular design element, one can reasonably determine that all "design" work must be completed by a date certain (*e.g.*, January 2003) in order to allow the proper amount of time for specification, sourcing, development, and testing. Thus, to the extent there is general agreement at the conclusion of the technical conference on a "best practices" implementation schedule for MD02, the Commission can reasonably determine approximate MD02 implementation timeframes once it defines the length of the ongoing design (*i.e.*, stakeholder) process and the requisite time for regulatory review. The CAISO requests that the Commission provide such direction soon after the conclusion of the technical conference.

⁵ July 17 Order at 61,232.

III. CONCLUSION

Wherefore, in recognition of the need for (1) a meaningful and informed process to support development of a seamless Western market, (2) a measured MD02 implementation schedule that provides sufficient time for coordination, system integration and market testing, and (3) cost-effective and rational business decisions, the CAISO requests that the Commission immediately convene a public technical conference, in Washington DC, to discuss the matters outlined above.

Respectfully submitted,

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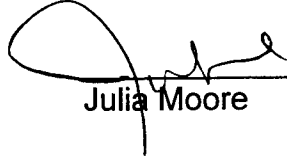
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Dated: October 29, 2002

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in the above-captioned docket.

Dated at Washington, DC, on this 29th day of October, 2002.



Julia Moore