



CALIFORNIA ISO

California Independent
System Operator

August 2, 2004

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

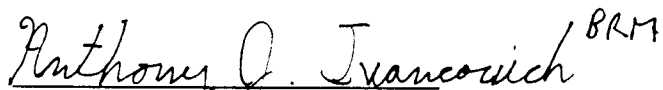
**Re: California Independent System Operator Corporation,
Docket Nos. ER02-1656-009, -010 and -011; and Investigation
of Wholesale Rates of Public Utility Sellers of Energy and
Ancillary, Services in the Western Systems Coordinating
Council, Docket No. EL01-68-017**

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,

Handwritten signature of Anthony J. Ivancovich in black ink. The signature is written in a cursive style and includes the initials "BRM" in the upper right corner.

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

California Independent System Operator Corporation)	Docket Nos. ER02-1656-009, ER02-1656-010, and ER02-1656-011
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 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. AUGUST STATUS REPORT

Sections A and B include narratives 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 Report.³ Section D identifies the ISO's key market redesign implementation issues including the previous month's accomplishments, major milestones, upcoming activities, issue

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

² November 27 Order at P 9.

³ The narrative includes only non-confidential information.

resolution with stakeholders and items requiring timely resolution by the Commission in order to meet the project schedule.

A. Phase 1B Status

Overall: There are a number of elements to Phase 1B. Two key elements include (1) providing the ISO operators better certainty that Energy Dispatched will be delivered, and (2) a Dispatch methodology that seeks pricing efficiency rather than merely issuing instructions in simple merit order. ISO operator uncertainty will be reduced by assessing penalties if generators do not respond within a defined Tolerance Band. Pricing efficiency will be achieved by eliminating separate prices that currently exist by establishing a single price for each Dispatch Interval.

Progress continues to be made in the areas of functional and integration testing for the Phase 1B systems. The ISO has completed 87% of the test cases with the balance waiting for some application releases and variances fixes. The ISO commenced End-to-End testing and operational testing at the end of June 2004 and both are scheduled for completion on July 30, 2004. End-to-End testing drives data from initial bid input all the way through the settlements system, while operational testing puts the new functions and platforms into the operator's hand to determine if the software is providing the desired outcomes within the timeframes necessary to reliably operate the grid.

In the July 5, 2004 Status Report, the ISO reported that a "sandbox" test environment was opened to Scheduling Coordinators on June 16 to assist in the development of user interfaces for the Phase 1B functionality. The sandbox is a

lightweight test environment that allows Scheduling Coordinators to connect to various systems as they will be deployed upon implementation. Participants have been most interested in testing the logging application that allows updates to unit operating parameters since the ISO has made changes to the process for reporting maximum operating levels. The ISO continues to encourage market participants to take advantage of the sandbox environment, which will be available until “go live”.

Market Simulation begins August 2, 2004 and will include two cycles with a third cycle tentatively scheduled. The dates are as follows:

- Cycle 1: August 2 – August 13, 2004
- Cycle 2: August 23 – September 3, 2004
- Cycle 3 (if needed): September 7 – September 17, 2004

A total of 26 Scheduling Coordinators (“SCs”) requested a time slot to run specific real-time scenarios during market simulation. The intent of these scenarios is to dispatch different energy types and resources that are of importance to that particular SC. The ISO developed scenarios based on each SC’s input the week of July 12th, which were then distributed to the SCs for review and finalized by the ISO.

The ISO prepared daily test plans that are “road maps” for market simulation participants. The test plans generally outline what is being dispatched and when (e.g., generating units, ties, load or some combination). Test plans for the first two weeks were distributed to participants on July 19, and Cycle 2 will be sent out during the week of August 16, 2004. Additionally, the ISO posted the

Phase 1B Market Simulation calendar,⁴ which outlines what is being run each day during market simulation.

During the off-week of market simulation, August 16 – 20, 2004, the ISO will conduct one-on-one readiness calls with the individual SCs. The purpose of the call is twofold: (1) review each SC's overall readiness and (2) the Phase 1B Market Simulation Exit Criteria.

At the July 29, 2004 ISO Board of Governors' meeting, the ISO requested and received Board approval to file three Phase 1B tariff changes in Amendment 62 to the ISO Tariff ("Amendment No. 62"). These changes include:

1. A limited exemption to the Uninstructed Deviation Penalty (UDP) to eliminate penalties for Energy that is delivered by Generating Units during start up and shut down sequences, but which cannot be scheduled. This change builds upon the change in the definition of Start-Up Costs that was approved by the Board in May 2004.
2. A two-month grace period after Phase 1B goes live during which time the ISO would suspend charging the Uninstructed Deviation Penalty, but would provide suppliers with information on what penalties would have been assessed so that they can verify that control systems are appropriately tuned to respond within the allowable Uninstructed Deviation Penalty bandwidth.
3. Revision of the default ramp rate used when a supplier fails to submit a ramp rate from the minimum Master File ramp rate to the maximum

⁴ The Phase 1B Market Simulation calendar is posted to the ISO website at: <http://www.caiso.com/docs/2003/11/14/2003111414575814490.pdf>

ramp rate. This change is necessary to avoid the potential negative operational impacts of using a very low ramp rate, and to provide an incentive to suppliers to consistently submit accurate and complete ramp rates.

Amendment No. 62 will also include a fourth item, discussed with and approved by the Board in May 24 – to reduce the number of operational ramp rate segments that Market Participants can use to define the ramping capability of their generating units from ten to nine.

A draft of Tariff Amendment 62⁵ was posted on the ISO's web site for stakeholder review and comment on July 27, 2004, with comments due back by noon July 30, 2004. The ISO plans on filing Amendment 62 with the Commission on August 2, 2004.

B. Market Redesign and Technology Upgrade Program

In the July 5, 2004 Status Report, the ISO reported that the ISO Board of Governors approved the plan and budget at the June 24, 2004 meeting for the Market Redesign and Technology Upgrade program that incorporates the conceptual design submitted to and partially approved by the Commission. Subsequent to the July 5, 2004 Status Report, the ISO has identified the major project milestones for the Market Redesign and Technology Upgrade program, and presented them July 29, 2004 Board of Governors meeting. The milestone format is currently being revised based on feedback received and are will be made available to the Commission as a part of a future Status Report once they

⁵ The draft of Tariff Amendment 62 was posted to the ISO website at: <http://www.caiso.com/docs/2004/07/27/200407271046197609.pdf>.

are finalized. While the reporting format will be updated to provide more detail, the project completion dates remain unchanged.

C. 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, the amounts that have been budgeted through the internal ISO process, and actual expenditures to date.

D. Key Issues

Resolution of Open Design and Policy Issues: The ISO has established a distinct program to oversee the resolution of open design and policy issues related to its market redesign that require closure in an aggressive timeframe to mitigate the impact on software implementation schedules. This program consolidates current stakeholder efforts and will include ISO participation in technical conferences and proceedings established by FERC in its June 17, 2004 Order. The program's timeline is necessarily aggressive because design issues must be closed by the end of the year to assure changes can be incorporated into software design and development without extending the implementation schedule.

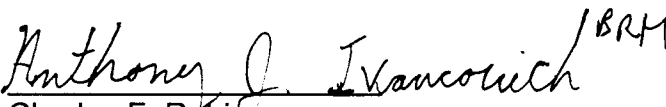
There are six distinct projects within the program: (1) Congestion Revenue Rights availability and allocation; (2) treatment of existing transmission contracts; (3) the potential impacts of location marginal pricing; (4) determination of the workability of the States Resource Adequacy framework; (5)

accommodation of Metered Sub-system contracts; and (6) the development of a viable market power mitigation scheme. While the aforementioned projects constitute distinct components of the market redesign effort, most cannot be considered in isolation of the others due to interdependencies. A stakeholder meeting will be held on August 17, 2004, to provide an update on the current status of the project, highlight the outstanding issues which must be resolved, and to solicit input on how the process can best be structured to accommodate the needs of the participants and provide resolution to the issues in a time frame that will allow the ISO to minimize potential cost impacts and maintain the current February 2007 implementation date.

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,


Charles F. Robinson
Anthony J. Ivancovich

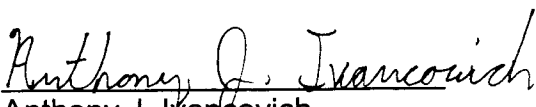
Counsel for the California Independent
Operator Corporation

Dated: August 2, 2004

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the public version of 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 2nd day of August 2004.

 ^{BRM}
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