



CALIFORNIA ISO

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REGULATORY COMMISSION
California Independent System Operator

July 7, 2003

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

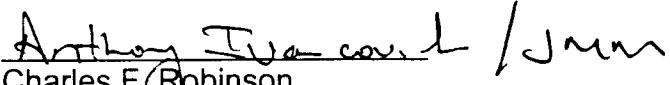
**Re: California Independent System Operator Corporation,
Docket No. ER02-1656-009, 010 and 011 and Investigation of
Wholesale Rates of Public Utility Sellers of Energy and
Ancillary Services in the Western Systems Coordinating
Council, Docket No. EL01-68-017**

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”)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

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

first report include explanations of the following: (1) any alternative methods of 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. Subsequent to the first filing, the ISO has continued 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 MD02 implementation.

I. JULY STATUS REPORT

Section A includes a narrative of the significant changes to the "MD02 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 MD02 budget along with an updated Budget Tracking and Status Report.³ 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 commercially prudent to reveal estimates of vendor

² November 27 Order at P 9.

costs prior to negotiation and contracting with successful bidders. Section C identifies the 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: In the June 2, 2003 Status Report, the ISO reported that Factory Acceptance Testing ("FAT") was underway. The pace of testing has been slower than previously anticipated primarily due to the complexity and number of required test cases (over 700). This has led the ISO to reassess the current implementation date of October 2003 and to designate a new implementation date of February 1, 2004. The following timing restrictions were also factored into the revised implementation date: (1) the cutover to a new real-time process is best made on the first day of the month for settlement purposes; (2) extension of the ISO testing period pushes market simulation into the winter holiday period; (3) December 1st and January 1st dates are sub-optimal for major market changes; and (4) February 2004 implementation can be achieved without the need for additional outside contractors or a reduction in test scripts. ISO management presented the revised Phase IB Implementation date at the June

³ The narrative includes only non-confidential information.

26, 2003 ISO Board of Governors meeting. The ISO expects to file Phase IB Tariff language, *i.e.*, Amendment 54⁴ with the Commission on July 7, 2003.

Phases II and III: The ISO management detailed the elements of the Revised Comprehensive Market Design Proposal to the Board of Governors at their two June meetings: June 6th and June 26th. At the June 26th ISO Board meeting, the Board of Governors authorized the ISO to file with the Commission the Revised Comprehensive Market Design Proposal. The ISO intends to file the Revised Comprehensive Market Design Proposal with the Commission during the month of July 2003.

The ISO has made significant progress in the sourcing decision for an Integrated Forward Market and Locational Marginal Pricing system vendor. Four ISO business unit teams -- representing markets, commercial aspects, Information Services and project management -- completed their vendor evaluations for the qualifying bidding vendors and identified the preferred vendor on May 28, 2003. The ISO notified all three vendors of their status throughout June and will continue to validate the selection of the top ranked vendor throughout the contract negotiation process.

Phase II and Phase III implementation is likely to move away from the current forecast dates of spring 2004 for Phase II and fall 2004 for Phase III. The following factors, among others, will determine the ultimate implementation dates

⁴ In the June 2, 2003 Status Report the ISO indicated that the Phase IB Tariff filing would be Amendment 53. On June 10, 2003, the ISO filed a different Amendment 53, regarding ISO Market Payments, in Docket No. ER03-942-000.

for Phases II and III: the timing of the necessary Commission approvals; commitments from vendors; the results and acceptance of LMP market simulation; and the ISO's desire not to make major market system changes in the middle of summer.

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

The current Budget update does not reflect any changes attributed to delaying Phase IB implementation, as the full cost impacts have not yet been analyzed.

C. Key Issues

1. Settlements and Market Clearing Request for Proposals

In the June 2, 2003 Status Report, the ISO reported that the ISO received responses for the Settlements and Market Clearing Request for Proposals ("SAMC RFP") from four vendors on May 23, 2003. Similar to the IFM/LMP RFP evaluation process, four teams are evaluating the responses to the SAMC RFP. Over 350 criteria are being evaluated in the areas of Project Management, Information Services, Business Requirements and Commercial viability, and vendors are required to demonstrate their solution based on a set of conditions provided by the ISO. The ISO will keep the Commission apprised of the vendor selection process in subsequent Status Reports.

2. Phase IB Technical Issues

The ISO Phase IB team continues to work with Market Participants regarding issues that arise and to keep stakeholders informed of the implementation of Phase IB through bi-weekly conference calls. The primary topic discussed during the June 17th conference call was the upcoming filing of Amendment 54. The Phase IB team gave a presentation of the key filing elements and allowed for a question and answer period with stakeholders. In the June 24, 2003 call the ISO discussed the schedule change to February 2003 with stakeholders, emphasizing that Market Testing with SCs would begin in November 2003 to meet the implementation date.

3. Locational Marginal Pricing Studies

ISO Staff is continuing work 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. Provided these and other unanticipated hurdles can be quickly overcome, the ISO anticipates providing preliminary results from the third LMP price dispersion study at the end of July 2003.

4. Congestion Revenue Rights Study

A Congestion Revenue Rights ("CRR") study is currently underway to determine how many CRRs will be available for load serving entities ("LSEs"). The scope of the initial study was structured, and data requested, in a manner

that treats Existing Transmission Contracts (“ETCs”) in much the same way as they are accommodated in the current ISO market (through reservation of capacity and as options). The purpose of this initial study is to establish a benchmark and identify any over commitment of facilities. A later iteration of the study will consider ETCs in the manner outlined by the ISO in its proposed design filing (essentially as obligations)⁵. Additional data will be needed from the ETC rights holders or Participating Transmission Owners (“PTOs”) to perform this next iteration. The value of having both methods examined is that this will enable the ISO to analyze the benefits of the ISO proposal including any potential increase in CRR availability by the treatment of non-converted ETCs as obligations. It should further be noted that no other entity has undertaken a CRR study of this type and that there is a learning curve associated with performing the study. For example, the data gathering has taken closer to three months versus the original estimate of three weeks. The primary reason for this underestimation of the time necessary to perform the study was due to the time actually required to educate entities about the needs and requirements for the study data. The continued reluctance by certain Market Participants to release source and sink information has caused additional delays and forced the ISO to make data assumptions for these entities. This data gathering and estimation effort is complete and the data being input into the study software. Active work on case studies is underway, but the ISO anticipates that data quality issues may continue to surface as a result of the ISO having to make data assumptions/

⁵ The method of honoring ETCs is outlined in the Revised Comprehensive Design Proposal posted on the ISO website June 20, 2003 which will be included in the subsequent July

estimation as indicated above. The ISO anticipates that initial study results will be available by mid August 2003.

5. LMP Cost-Benefit Analysis

With the concurrence of representatives of the California Legislature, a planned separate LMP Cost-Benefit Analysis effort was superseded by the anticipation of having actual data available when an LMP simulation is performed prior to Phase III implementation. A testing period using newly developed software programs with Market Participants and the ISO will provide "real" data for the study of LMP impacts in California.

6. Stakeholder Participation

Subsequent to the June 6th ISO Board of Governors meeting, the ISO held a number of meetings with various stakeholders to discuss further the elements of the Revised Comprehensive Market Design Proposal. It should be noted that it is the intent of the ISO and stakeholders to continue to work through the remaining details after the Revised Comprehensive Market Design Proposal is filed with the Commission. Below is a list of the meetings that took place since the June 6th ISO Board meeting.

- 1) June 10th – Meeting with the California Public Utilities Commission ("CPUC"), California Energy Resource Scheduling ("CERS"), California Electricity Oversight Board ("EOB"), Pacific Gas & Electric Company ("PG&E"), Southern California Edison ("SCE"), San Diego Gas & Electric Company ("SDG&E") and the ISO. The purpose of the meeting was to discuss market and scheduling rules for existing contracts.

filing with the Commission.

- 2) June 12th – Meeting between the CPUC and the ISO regarding the proposed Must-Offer provision, resource adequacy, Locational Marginal Pricing (“LMP”) and various price and bid mitigation measures.
- 3) June 16th – Meeting with representatives of the Independent Energy Producers’ Association (“IEP”), Calpine, Mirant, Florida Power & Light Energy, Williams, Reliant, Central and Southwest, Dynegy and the ISO. The purpose of the meeting was to further discuss Must-Offer, residual unit commitment (“RUC”) and price/bid mitigation measures.
- 4) June 17th – Meeting with the CPUC, CERS, EOB, PG&E, SCE, SDG&E and the ISO regarding continued discussion of the market and scheduling rules for existing contracts.
- 5) June 19th – Meeting with Municipal utility representatives and the ISO regarding a number of issues, including the ISO’s new proposed procedure for honoring Existing Transmission Contracts.

The ISO will continue to work with these stakeholders to address remaining concerns about the Revised Comprehensive Market Design Proposal.

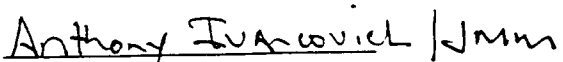
7. Comprehensive Market Design Proposal Filing

The ISO Board of Governors has authorized the filing of the MD02 revised Comprehensive Market Design Proposal with the Commission. The ISO intends to file the Comprehensive Market Design Proposal with the Commission in July 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 MD02 implementation effort. The ISO appreciates having the opportunity to comment and report on the progress being made in MD02.

Respectfully submitted,


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Anthony J. Ivancovich

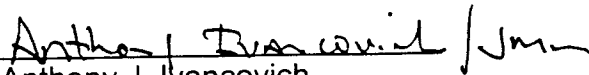
Counsel for the California Independent
Operator Corporation

Dated: July 7, 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 7th day of July 2003.


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ATTACHMENT A

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