



# CALIFORNIA ISO

California Independent  
System Operator

October 6, 2003

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

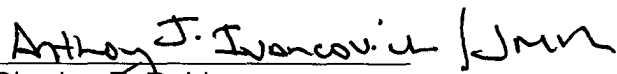
**Re: California Independent System Operator Corporation,  
Docket No. ER02-1656-009, 010 and 011 and Investigation of  
Wholesale Rates of Public Utility Sellers of Energy and  
Ancillary Services in the Western Systems Coordinating  
Council, Docket No. EL01-68-017**

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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Folsom, CA 95630

Attorneys for the California Independent  
System Operator Corporation



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 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. OCTOBER STATUS REPORT**

Section A includes 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 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

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

that regard, it would not be 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 September 2, 2003 Status Report, the ISO reported that the ISO filed its responses to Amendment 54 with the Commission on August 27, 2003. Since that filing, a design implementation issue arose regarding the complexity related to pricing imbalance energy that results from previous instructions and ramping between hourly schedules. Subsequent to discussions with Market Participants during the bi-weekly conference calls and internal discussions with the ISO internal review committee, the ISO decided to modify the energy accounting process by performing a portion of the energy accounting after the fact. With the data currently being contemplated for publishing, no additional data will be necessary for Market Participants' own validation purposes. This decision will not affect the Tariff language of Amendment 54, currently before the Commission. See detailed discussion in Section C.2 *infra*.

System testing is over 50 percent complete and integration testing began with initial success between critically linked systems. However, some elements of testing and development are two to three weeks behind schedule. The ISO

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

assigned additional resources to mitigate this schedule slippage, which may affect the overall Phase IB budget. Although system testing and development is lagging in certain areas, the ISO is working towards beginning market simulation on November 3, 2003, as scheduled. This date could be at risk if the testing does not continue to progress at a solid pace.

Training for ISO Operators commenced the first week of September 2003 and will continue through Phase IB implementation. The Phase IB team is finalizing training materials for Market Participants, and will begin training the first half of October 2003. ISO training will prepare Market Participants for both Market Simulation and implementation of Phase IB.

**Integrated Forward Market/Locational Marginal Pricing:** The ISO filed answers to protests and comments to the amended Market Design Amendment 44 with the Commission on September 17, 2003. The ISO continues contract negotiations with the preferred vendors selected for both the Integrated Forward Market/Locational Marginal Pricing (“IFM/LMP”) and Congestion Revenue Rights (“CRR”) functionality with the understanding that in both instances the underlying deliverables are subject to Commission approval of the Market Design Amendment 44 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 IFM/LMP 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 vendor selection process is nearing completion for the Settlements and Market Clearing Request for Proposal ("Settlements"). As reported in the September 2, 2003 Status Report, each vendor went through a rigorous two-day demonstration/interview process based on the business units' requirements. Final vendor selection is targeted for mid October 2003. Award of the contract is targeted for early December 2003, after approval by the ISO Board of Governors.

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

The ISO held two Phase IB technical conference calls on September 16 and September 23, 2003. On the September 16, 2003 conference call, the ISO Phase IB team discussed with Market Participants a design implementation issue relating to the accounting and pricing of instructed energy that was extra marginal resulting from instructions to meet dispatch levels in subsequent or resulting from dispatch instructions in previous hours (residual energy). The team presented three technical alternatives for pricing imbalance energy that

would have simplified the energy accounting calculation. Most Market Participants expressed a desire for the ISO to provide all data that would enable them to validate fully the energy calculation. The Market Participants clarified, however, that the information could be provided after-the-fact. Subsequent to the conference call, the Phase IB team presented these alternatives to the ISO internal review committee for a decision on how best to proceed. Upon further evaluation, the Phase IB team developed an after-the-fact method of energy accounting that could satisfy the Market Participants' need for validation. This method was discussed with the Market Participants during the September 23, 2003 conference call. Although no opposition to this approach was expressed on the phone call some stakeholders did express interest in seeing more details of the after-the-fact methodology. Accordingly, the ISO will proceed with providing the after-the-fact energy accounting data as proposed and provide specifics of the methodology to stakeholders. This methodology will not require a modification to the Amendment 54, Phase IB Tariff filing.

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

The third Locational Marginal Pricing ("LMP") price dispersion study preliminary report is slated to be posted to the ISO website the first week of October 2003 pending final approval by the ISO internal review committee. The preliminary report examines LMPs using market bids and other operating conditions for ten days since the implementation of Phase IA. A final third LMP price dispersion study report will be completed at the end of 2003, which will include simulation of a full year of LMPs using current market bids.

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

The ISO completed analysis of the CRR Study during the last week of September 2003 and sent study results to the Market Participants who provided data for the study. A redacted version of the CRR Study was posted to the ISO website at the same time for other Market Participants.<sup>4</sup> 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. CPUC Procurement Proceedings**

In the September 2, 2003 Status Report, the ISO reported that 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. Consistent with the decision of the Administrative Law Judge (“ALJ”) to provide additional time, the ISO filed its Brief and Reply Brief on September 15 and 22, 2003, respectively. The ALJ expects to issue a draft decision on November 18, 2003, with a final decision scheduled for mid-December 2003.

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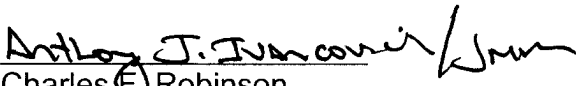
<sup>4</sup> The CRR study posted to the ISO website was redacted to honor requests by Market Participants to keep confidential certain study data and results.



## 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 E. Robinson  
Anthony J. Ivancovich

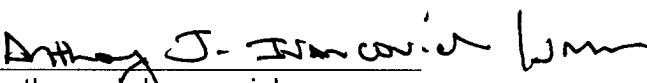
Counsel for the California Independent  
Operator Corporation

Dated: October 6, 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 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 6<sup>th</sup> day of October 2003.

  
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## ATTACHMENT A

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