



CALIFORNIA ISO

California Independent
System Operator

September 7, 2004

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

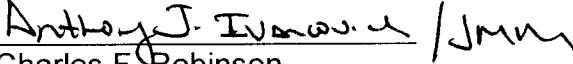
**Re: California Independent System Operator Corporation,
Docket Nos. ER02-1656-009, 010 and 011 and Investigation of
Wholesale Rates of Public Utility Sellers of Energy and
Ancillary Services in the Western Systems Coordinating
Council, Docket No. EL01-68-017**

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,


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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.³ The Commission directed the ISO to update the market redesign implementation plan on a monthly basis, indicating the progress made and the upcoming steps contemplated.

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.⁴ 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

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.⁵ Section D

³ November 27 Order at P 9.

⁴ This Report is being filed today in light of the Labor Day holiday.

⁵ The narrative includes only non-confidential information.

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. Phase IB Status

Overall: There are a number of elements to Phase IB. 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.

The ISO reviewed the Phase IB test results on August 30, 2004, which included results from the functional, integration, end-to-end, and operational testing. Over 90 percent of the test cases were executed. The ISO also completed testing in the areas of Load and Performance, Failover/Fallback, and Security verification. Daylight savings time long day testing is being deferred until after October 1, 2004, but will be completed prior to the actual long day on October 31, 2004. The ISO is now transitioning from the testing phase to the deployment phase, targeting implementation on October 1, 2004.

The ISO and Scheduling Coordinators ("SCs") completed the first cycle of Market Simulation, which was conducted from August 2 – 13, 2004. The focus of

cycle 1 was twofold: (1) to run specific real-time scenarios for the 26 Scheduling Coordinators who requested a time slot and (2) for SCs to review settlement statements for the two published trade days. The ISO requested that SCs submit questions about the settlement statements to the market simulation mailbox so that each question could be tracked and answered in a timely manner.

During the off-week of market simulation, August 16 – 20, 2004, the ISO conducted one-on-one readiness calls with the individual SCs. The purpose of the calls was to review the Phase IB Market Simulation Exit Criteria and each SC's overall readiness. Some SCs had questions about how they were dispatched and most SCs required more time to review and validate their settlement statements. Their overall readiness ranged from 50-90 percent.

Cycle 2 started on August 23 and concludes on September 3, 2004. During cycle 2 the ISO will complete the remaining SC specific real-time scenarios and run system scenarios. SCs will continue to review and validate settlement statements for cycles 1 and 2. With the start of cycle 2, the ISO recorded questions submitted by Market Participants into a tracking system. The ISO produces two daily reports from the tracking system that are posted to the ISO website: (1) Market Simulation Issues Report⁶ that captures variances that affect the system and (2) Market Simulation Inbox Report⁷ that contains responses to emails received regarding market simulation questions, including

⁶ The Market Simulation Issues Report is posted to the ISO website at: <http://www.aiso.com/docs/2004/08/02/2004080216134910189.pdf>

⁷ The Market Simulation Inbox Report is posted to the ISO website at: <http://www.aiso.com/docs/2004/08/25/200408250926163142.pdf>

settlement statements. The purpose of the Inbox Report is to ensure that SCs' questions have been captured and are being addressed in a timely manner.

Cycle 2 concludes Phase IB Market Simulation. The next two weeks, September 7 – September 17, 2004, will be used to address individual SCs' concerns with the new system. During the Phase IB conference call on August 28, 2004, the ISO informed participants that the ISO was moving from market simulation to preparation for cutting over to the new system being implemented with Phase IB and that they should begin preparing their systems as well. The ISO remains on track to implement Phase IB on October 1, 2004.

The ISO filed Amendment 62 with the Commission on August 3, 2004, which included the following changes:

1. Provide compensation to Generating Units during start-up and shut-down;
2. Suspend financial settlement of Uninstructed Deviation Penalties ("UDP") for a two-month period following implementation;
3. Use the maximum ramp rate specified in the Master File as the default ramp rate if no operational ramp rate is submitted; and
4. Change the operational ramp rate function from ten to nine segments.

During the Phase IB conference on August 20, 2004, the ISO discussed with Market Participants the issue of advancing the deadline for submitting Supplemental Energy bids to the Real Time Market by two minutes from one hour before the operating hour to one hour and two minutes before the operating hour. This temporary modification will resolve an existing timing issue between

the time the close of the Real Time Market (when bids are available for the next operating hour for the Real Time Market Application or "RTMA") and the time when RTMA first reads the available bids. During the call, Market Participants did not oppose a minor change to the deadline for submitting bids to the Real Time Market as long as the change was temporary. In addition to asking for feedback during the conference call, the ISO sent out an email requesting that participants submit their comments by noon, Tuesday, August 31, 2004. The ISO did not receive any written comments.

The ISO plans to file a conditional request for temporary waiver with the Commission by September 8, 2004. Specifically, the ISO will be seeking to advance the deadline by 2 minutes from 60 minutes prior to the operating hour to 62 minutes prior to the operating hour for a period of two months. The ISO will endeavor to modify the RTMA before October 1, 2004 so that no changes to the deadline for submitting bids to the Real-Time market will be required, but will be asking the Commission to grant the waiver described above if such waiver is needed to allow the RTMA to be put into service on October 1, 2004.

B. Market Redesign and Technology Upgrade Program

The program is currently on track to meet a February 2007 implementation date provided there are no significant changes to the conceptual design and development work to incorporate directives from regulatory orders are relatively minor. Project schedules have been established with vendors for key projects and no significant deliverables have been missed. The key projects are in the design stages with vendors, and detailed design is targeted for completion by

early 2005. Resolution of open policy issues are critical by the end of 2004 such that design details can be incorporated in the development phase of the project, which is slated to commence for the key projects in early 2005.

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

1. Resolution of Open Design and Policy Issues

The ISO held a stakeholder meeting on August 17, 2004 to highlight the outstanding policy issues that require resolution in a timeframe that will allow the ISO to maintain the February 2007 implementation date. In addition to identifying the issues, the ISO proposed a calendar and solicited input from the stakeholders on how to structure the process for resolution in this limited timeframe. To a large extent, the calendar consolidates various ongoing stakeholder processes underway to address open policy issues. Presentation materials, the proposed calendar, notes from the session, and a market redesign and technology upgrade overview and checklist of issues is posted on the ISO website.⁸ The calendar and issues lists will be updated as issue resolution progresses.

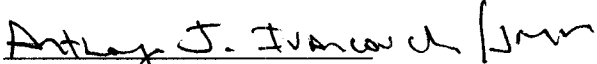
⁸ Stakeholder meeting information is available at <http://www.caiso.com/docs/2002/08/23/200208231358035858.html>

The key open policy issues are: (1) Congestion Revenue Rights availability and allocation; (2) treatment of existing transmission contracts; (3) the potential impacts of location marginal pricing (“LMP”); (4) determination of the workability of the State’s Resource Adequacy framework; (5) accommodation of Metered Sub-system contracts and; (6) the development of a viable market power mitigation scheme. The ISO also introduced the idea that, with respect to items 3 and 6, it may be necessary to develop a transitional pricing and settlement scheme (other than LMP) if those items are not satisfactorily resolved prior to the software development phase of the program. It is important to emphasize that, in the long run, the ISO remains committed to a market based on locational marginal pricing due to the efficiency that it provides.

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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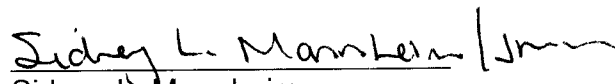
Counsel for the California Independent
System Operator Corporation

Dated: September 7, 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, 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 September 2004.


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ATTACHMENT A

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