



July 6, 2004

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

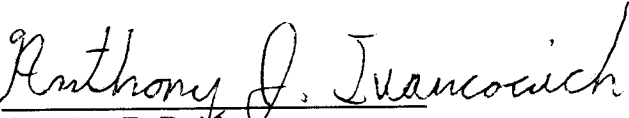
**Re: California Independent System Operator Corporation,
Docket No. ER02-1656-009, -010, and -011 and Investigation of
Wholesale Rates of Public Utility Sellers of Energy and
Ancillary Services in the Western Systems Coordinating
Council, Docket No. EL01-68-017**

Dear Secretary Salas:

Enclosed for filing in the above-captioned dockets, please find the Status Report of the California Independent System Operator Corporation ("ISO") in which the confidential information has been redacted.

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,

 BRM

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Attorneys for the California Independent
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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**
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**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 ("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. JULY 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 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.

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.

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. 288 of 363 test cases have been completed with the balance scheduled for completion by July 29, 2004. Functional testing of the core system software has progressed to the point that phases of the End-to-End testing and operational testing have both commenced. 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 operators hand to determine if the software is providing the desired outcomes within the timeframes necessary to reliably operate the grid.

The ISO opened a "sandbox" test environment 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. While no dynamic market information is available, static

data is provided in this environment, participants can upload and download information in substantially the same form as it will occur during market simulation and at “go-live.” This should have the further benefit of allowing participants to prepare for the next round of market simulation.

The ISO conducted a fourth round of one-on-one conference calls during the first half of June with Scheduling Coordinator to determine readiness status, encourage use of the sandbox environment and solicit input on market simulation scenarios. Participants generally reported that they made progress on their implementation efforts, but a few indicated that they would not likely be ready for the next round of market simulation.

The ISO responded to the Commission’s request for clarification on the treatment of constrained generation and ex-post pricing in Amendment No. 58 to the ISO Tariff. Constrained output generators will be eligible to set the clearing price when they are the marginal unit in an interval, and will be paid their bid price in intervals when they are infra-marginal as a result of a dispatch order. In response to the ex-post pricing issue, the ISO clarified that it will not place a performance requirement on the marginal unit for setting the interval MCP, but noted that the method by which the ISO is determining the interval MCP is not necessarily consistent with either definition of ex-post or ex-ante price in the Commissions SMD NOPR.

B. Approval of the Market Design Overall Plan and Budget by the ISO Board of Governors

The ISO Board of Governors approved the plan and budget for the market redesign and technology upgrade programs that are necessary to execute the conceptual design submitted to FERC at the June 24, 2004 meeting. The approval acknowledges three key areas of concern:

1. Insufficiency of tools for the system operators to reliably manage the grid without an inordinate amount of manual intervention in real-time;
2. Inconsistency between the current market design and the manner in which the physical system operates in real-time; and
3. The aging of the infrastructure and systems that have been in operation since ISO start up are overdue for replacement

The scope of the program plan approved by the Board addresses the three key areas and, as such, is complex and requires significant coordination in assuring that all the components will operate seamlessly. This results in an extension of the implementation schedule previously communicated to the Commission. In addition to implementing the Phase 1B functionality in the fall of 2004, the plan forecasts replacement of the market clearing functions in the fall of 2005, replacement of the settlement system in the spring of 2006 and the fully integrated implementation of the comprehensive re-design in February of 2007. Schedule and budget information from the general session of the Board of Governors meeting is available on the ISO web site at

<http://www.caiso.com/docs/2004/06/15/2004061515530917633.html> .

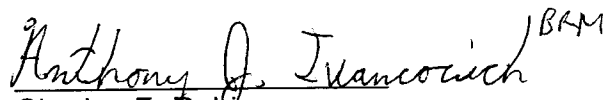
**C. Key Issues; Guidance on Market Design Elements in
Commission Order Issued June 17, 2004**

The ISO is currently assessing whether the guidance received on the seven items the Commission ruled on in its June 17, 2004 Order (107 FERC ¶ 61,274) will have any substantial impacts on the overall design and software development. As noted in the Order, some elements also require further elaboration of the details by the ISO and those matters are currently being addressed. The Order also established further processes for resolving the issues associated with three matters, Existing Transmission Contracts, Seller's Choice Contracts and Congestion Revenue Rights. The ISO will incorporate its ongoing stakeholder process with respect to these items into those activities.

II. CONCLUSION

In Section I of this Report, the ISO has responded to the Commission's request for specific information on progress, critical issues, etc. 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

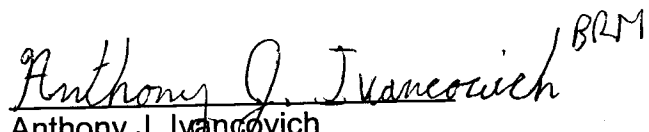
Counsel for the California Independent
Operator Corporation

Dated: July 6, 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 6th day of July, 2004.


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