



June 7, 2004

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

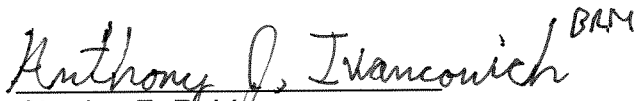
**Re: California Independent System Operator Corporation,
Docket No. ER02-1656-009, -010, and -011; Investigation of
Wholesale Rates of Public Utility Sellers of Energy and
Ancillary Services in the Western Systems Coordinating
Council, Docket No. EL01-68-017**

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 its entirety. In all other respects, the version of the filing to be publicly released is identical to the version of the Status Report that contains confidential information.

Respectfully submitted,

Handwritten signature of Anthony J. Ivancovich in cursive, with the initials 'BAM' written in the upper right corner of the signature.

Charles F. Robinson
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Attorneys for the California Independent
System Operator Corporation

**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 (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. JUNE STATUS REPORT

Sections A and B below 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 Report³. 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.

As noted in the May 2004 Status Report, software development of the Phase 1B applications was completed the last week of April 2004. The ISO initiated the application testing phase⁴ during May 2004 and completed 163 of the identified test cases. The completed cases are on track with respect to the original schedule that contemplated a total of 200 test cases, but the ISO has developed additional test cases, which now extends the time required to complete all of the developed test cases. Rather than have the additional testing time impact the overall schedule and projected Fall 2004 implementation date, the project team is prioritizing the remaining test cases and will focus on completing those test cases that deal with normal operation rather than on completing speculative anomalous scenarios. Completion of the normal

operation cases will allow migration to the operational testing phase without an impact to the overall schedule and the anomalous scenarios can be run at a later date.

Even with the additional test cases, Phase 1B remains on track for a Fall 2004 implementation subject to resolution of variances discovered in testing. Once the testing phase is completed, including variance resolution and re-test, the ISO will be in a better position to apprise the Commission of the final “go-live” date.

B. Integrated Forward Market/Locational Marginal Pricing Status

The ISO and Siemens conducted a series of development and design specification walkthrough meetings to resolve detailed design issues for the Integrated Forward Market software. These meetings conclude the design phase for the market software, and Siemens and the ISO are currently meeting to determine system architecture and network model design details.

C. Market Redesign Budget Update

The Budget Status and Tracking Report (Attachment A) shows the overall MD02 budget broken down by project component, the amounts expended to date and the cost to completion. The overall budget has not yet been approved by the ISO Board of Governors, although reported expenditures have been approved in stages. The Budget Status and Tracking Report will remain confidential until such time that the information contained in the report does not disclose

⁴ A comprehensive outline of the testing plan, including the various phases and schedule, was provided in the May 2004 Status Report.

confidential business information or jeopardize the ISO's negotiations with vendors regarding implementation of the market redesign.

D. Key Issues

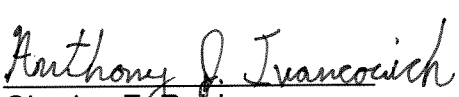
Scheduling Infrastructure Business Rules Project

The ISO management received Board of Governors' approval to proceed with the Scheduling Infrastructure Business Rule (SIBR) Project at the Board's May 20, 2004 meeting. The SIBR, among other things, validates Scheduling Coordinator bids prior to those bids being used by the market systems, and processes Scheduling Coordinator bids after those bids have been validated. The SIBR Project will allow changes to current and future business rules to be made more efficiently through the implementation of an industry-standard rules engine infrastructure greatly reducing vendor dependence and costs. The Board has authorized ISO Management to execute contracts with the preferred vendor and to procure the necessary hardware to develop, test and run the SIBR system in production.

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,

 ^{BRM}
Charles F. Robinson
Anthony J. Ivancovich


Counsel for the California Independent
Operator Corporation

Dated: June 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 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 7th day of June 2004.


Sidney L. Mannheim
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