

UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION  
101 FERC ¶ 61,266

Before Commissioners: Pat Wood, III, Chairman;  
William L. Massey and Nora Mead Brownell.

California Independent System  
Operator Corporation

Docket Nos. ER02-1656-009  
ER02-1656-010  
ER02-1656-011

ORDER CLARIFYING THE CALIFORNIA MARKET REDESIGN  
IMPLEMENTATION SCHEDULE

(Issued November 27, 2002)

1. The California Independent System Operator Corporation (CAISO) filed a request for rehearing that included a request that the Commission clarify the California Market Redesign (MD02) implementation schedule.<sup>1</sup> In this order, we clarify the CAISO MD02 implementation schedule.<sup>2</sup> This order benefits customers by clarifying aspects of the October 11 Order, which will result in enhanced electricity reliability for California and help provide power at just and reasonable prices.

Background

2. In an order issued July 17, 2002<sup>3</sup> the Commission directed the CAISO to expedite implementation of Phase 2 of the MD02 proposal, including the creation of an integrated day-ahead market, ancillary services reforms, and hour-ahead and real-time reforms. We also directed the CAISO to file its proposal by October 21, 2002, for implementation by January 1, 2003.

---

<sup>1</sup>CAISO, Southern California Edison Company, Powerex Corp., Independent Energy Producers Association, Williams Energy Marketing and Trading Company, and Bonneville Power Administration filed Requests for Rehearing and/or Clarification of the October 11 Order. In this order we are addressing only the implementation of Phase 2 Lite and will address the remaining issues raised on rehearing in a later order.

<sup>2</sup>See California Independent System Operator Corporation, 101 FERC ¶ 61,061 (2002) (October 11 Order).

<sup>3</sup>See California Independent System Operator Corporation, 100 FERC ¶ 61,060 (2002) (July 17 Order).

Docket No. ER02-1656-009, et al. - 2 -

3. At an August 2002 Technical Conference convened in San Francisco by Commission staff, the CAISO presented to stakeholders the reasons why it believed it could not implement the Phase 2 elements by the Commission-directed deadline of January 1, 2003. In addition stakeholders and the CAISO discussed various options for the MD02 implementation timeline. These options included (1) collapsing Phase 2 into Phase 3, to be implemented at the originally proposed Phase 3 deadline of Fall 2003, or (2) splitting Phase 2 through the implementation of a "Phase 2 Lite" by January 31, 2003, and implementing the remaining elements of Phase 2 concurrently with the elements of Phase 3.

4. "Phase 2 Lite" would implement a modified day-ahead market through (1) relaxation of the balanced schedule requirement for energy and congestion management bids; (2) elimination of the market separation rule; and (3) acceleration of the hour-ahead scheduling modifications the CAISO proposed. The rest of Phase 2 and all of Phase 3 would be implemented in Fall 2003, to include the full implementation of the forward integrated markets (energy, congestion management, ancillary services, unit commitment and a full network model) along with implementation of locational marginal pricing.

5. In the October 11 Order, the Commission found reasonable the proposal to implement "Phase 2 Lite," and directed its implementation by January 31, 2003. In light of a Phase 2 Lite implementation, the Order permitted the postponement of the remaining Phase 2 elements until implementation of Phase 3 in the Fall of 2003. In its November 8, 2002 Request for Rehearing of the October 11 Order, the CAISO states that the Commission should vacate its directive that Phase 2 Lite be implemented by January 31, 2003, and further argues that it could not implement Phase 2 Lite prior to Summer 2003. Southern California Edison Company urges the Commission to reconsider the implementation of Phase 2 Lite, stating that this approach would result in a waste of CAISO time and ratepayer resources and would lead to delays in implementing more important aspects of MD02.

### Discussion

6. In its Request for Rehearing, the CAISO acknowledges that it had not examined thoroughly the feasibility of implementing Phase 2 Lite by January 31, 2003. It explains that "the October 11 Order [was] based on a record that was inaccurate and incomplete.

Docket No. ER02-1656-009, et al. - 3 -

The CAISO takes full responsibility for this."<sup>4</sup> Specifically, the CAISO argues that implementing Phase 2 Lite would require significant expenditure of funds and diversion of staff resources from Phases 2 and 3. The CAISO further argues that the Phase 2 Lite changes would be temporary "throwaway" modifications "that might only be in effect for a few months until [the temporary modifications are] replaced by the comprehensive IFM [Integrated Forward Market Design]."<sup>5</sup>

7. Our directives regarding the implementation schedule in the October 11 Order were based in large part on the assertion by the CAISO that it could implement Phase 2 Lite by January 31, 2003.<sup>6</sup> On rehearing, the CAISO contends that it has expended a "significant effort to examine the feasibility of Phase 2 Lite" and now maintains that it cannot implement Phase 2 Lite by January 31, 2003. Accordingly, we grant rehearing. We will no longer require the implementation of Phase 2 Lite by January 31, 2003, as previously directed in the October 11 Order.

8. We recognize the commitment of time and resources to undertake the market redesign and are committed to working with the CAISO and market participants.<sup>7</sup> To this end, we direct the CAISO to file a full implementation plan, including a detailed timeline with the sequential and concurrent nature of design elements, the software and vendors (once selected) to be used, and cost estimates for each element. This plan and its implementation should be robust enough to be compatible with the developing RTOs in the West. Specifically, we direct the CAISO to file an estimate of expenditures on hardware and software development necessary for implementation of MD02. The estimates should be based on vendor quotes and material costs for a system that can be upgraded or modified to reflect refinements necessary to interface with the systems of RTO West and WestConnect as they are developed.

---

<sup>4</sup>CAISO Request for Rehearing, p 12.

<sup>5</sup>See Emergency Request for Rehearing and Motion for Clarification of the California Independent System Operator Corporation, November 8, 2002, p. 22.

<sup>6</sup>See 101 FERC at P. 83.

<sup>7</sup>We note that the Commission has scheduled a technical conference to be held on December 9, 2002 to facilitate continued discussions between the CAISO and stakeholders regarding the development of the remaining elements of the CAISO market redesign and to identify related implementation issues.

Docket No. ER02-1656-009, et al. - 4 -

9. We direct the CAISO to update this plan on a monthly basis, indicating the progress made and the upcoming steps. This report shall be filed on the first Monday of each month, beginning with Monday, January 6, 2003.<sup>8</sup> In the first informational filing, the CAISO should explain (1) any alternative methods of developing the MD02 elements; (2) progress made in developing these elements; (3) actions that it will take to establish these elements; and (4) detailed breakdown of the total start-up costs. We may supplement these requirements in subsequent orders, as necessary, to facilitate our monitoring function.

The Commission orders:

The Commission hereby grants rehearing and clarifies the MD02 implementation schedule, and directs the CAISO to file monthly reports with the Commission, as discussed in the body of this order.

By the Commission.

( S E A L )

Linwood A. Watson, Jr.,  
Deputy Secretary.

---

<sup>8</sup>We note that, on a monthly basis, the CAISO provides updates to its Board of Governors.