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FEDERAL ENERGY REGULATORY COMMISSION

California Independent System Operator

August 4, 2003

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

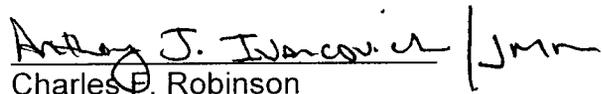
**Re: California Independent System Operator Corporation,
Docket No. ER02-1656-009, 010, and 011 and Investigation of
Wholesale Rates of Public Utility Sellers of Energy and
Ancillary Services in the Western Systems Coordinating
Council, Docket No. EL01-68-017**

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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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 No. ER02-1656-000
)	
)	
Investigation of Wholesale Rates of Public Utility Sellers of Energy and Ancillary Services in the Western Systems Coordinating Council)	Docket No. EL01-68-017
)	
)	

**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 of 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

¹ Capitalized terms not otherwise defined herein are used in the sense given in the Master Definitions Supplement, Appendix A to the ISO Tariff.

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. AUGUST STATUS REPORT

Section A includes a narrative of the significant changes to the "Program Plan – High Level" schedule that have occurred since the filing of the April 7, 2003 Status Report. Section B includes a narrative regarding the budget along with an updated Budget Tracking and Status Report.³ 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 that regard, it would not be

² November 27 Order at P 9.

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 July 7, 2003 Status Report, the ISO reported that it filed the Phase IB Tariff language, *i.e.*, Amendment No. 54 to the ISO Tariff, with the Commission on July 8, 2003. On July 21, 2003, the California Generators and the Independent Energy Producers of California filed a joint motion to extend the time period for submitting comments on Amendment 54. On July 23, 2003, the Commission granted an extension of time until August 12, 2003 for parties to submit comments.

The ISO has completed nearly 30 percent of the Real-Time Market Applications Factory Acceptance Testing ("FAT") and is on schedule to complete system and integration testing of the dispatch and settlements systems by November 1, 2003. At that point the ISO will start training Market Participants in order to commence market simulation.

Phases II and III: In the July 7, 2003 Status Report, the ISO reported that at the June 26th ISO Board meeting, the Board of Governors authorized the ISO to file an Amendment to the Comprehensive Market Design Proposal

³ The narrative includes only non-confidential information.

("Market Design Amendment") with the Commission. The ISO filed the Market Design Amendment on July 22, 2003.

The ISO started initial contract negotiations with the preferred vendor selected for the IFM/LMP functionality with the understanding that the underlying deliverables are subject to Commission approval of the Market Design Amendment and contract approval by the ISO Board of Governors. The calendar for completing contract negotiations is consistent with the Commission comment and review period, and the ISO's goal is to have a contract ready for signature very close to the time that it receives the necessary approvals so the contractor can begin work immediately. Once the ISO obtains the approvals from the Commission and the ISO Board of Governors, the ISO will finalize an implementation schedule for Phase II and Phase III and post the schedule on 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 ISO sent out the Settlements and Market Clearing Request for Proposals (“Settlements RFP”) on April 24, 2003, seeking vendors that could upgrade the Settlements and Market Clearing System and provide a more automated settlement system, a system more flexible for design changes, and a system that integrates with the market financial systems of the ISO. Due to the magnitude of changes required to support the market redesign in Phase II and Phase III, and to accomplish the objective of a fully integrated system, the entire system is being replaced rather than merely augmenting the existing systems.

Four internal staff teams representing Project Management, Information Services, Business Requirements, and Commercial viability continue to evaluate the four qualified vendor responses to the Settlements RFP. The next step in the Settlements RFP process is vendor demonstration/interview. From July 31, 2003 through August 14, 2003, the ISO will conduct four two-day vendor demonstrations and interviews. Each vendor is required to demonstrate the commercial feasibility of their product and respond to questions that arise during the course of the two-day demonstration. The ISO will keep the Commission apprised of the vendor selection process in subsequent Status Reports. No contract will be signed until approved by the ISO Board of Governors.

2. Phase IB Technical Issues

The ISO Phase IB team held two technical conference calls during the month of July. At the July 29, 2003 conference call, the ISO provided an

overview of the pre-market simulation training to the Market Participants and responded to questions. To prepare participants for market simulation, the ISO will be providing two training sessions. The ISO also released the technical specifications for participating user interfaces for the Automated Dispatch System (“ADS”) and Settlement file specifications and charge type matrices incorporating changes that will be in effect with Phase IB implementation.

3. Locational Marginal Pricing Studies

In the July 7, 2003 Status Report, the ISO reported that ISO Staff is working on implementation issues related to the alternating current (“AC”) power flow model, including challenges associated with network modeling, recognition of network constraints (RMR dispatch and nomograms) and data quality in areas outside of California that appear to affect successful modeling. Resources designated for the LMP studies are currently deployed on other high priority market redesign efforts, which have caused some delays in this effort. The ISO is assessing this resource issue and now anticipates providing preliminary results from the third LMP price dispersion study at the end of August 2003.

4. Congestion Revenue Rights Study

Work continues on the Congestion Revenue Rights (“CRR”) Study effort, which is designed to determine how much load can be protected with CRRs. Over the past month, ISO staff made a series of very preliminary market runs using data provided by PTOs and LSEs. Staff is carefully analyzing the results of these preliminary runs, including reviewing initial assumptions made for the CRR

Study and scrutinizing the initial data provided by the LSEs. The ISO expects the preliminary results will provide useful information and help the ISO refine study parameters and any future data requests necessary for further studies.

The ISO Board of Governors directed the ISO to work in cooperation with the California Public Utilities Commission (“CPUC”) in overseeing and conducting the CRR Study and allocation process. This process and commitment is consistent with the Commission’s vision, “Wholesale Power Market Platform White Paper” – issued April 28, 2003, that existing customers retain their existing transmission rights and retain rights for future load growth, and that regional state committees determine how rights should be allocated to current customers based on current uses of the grid. The ISO continues to work closely with the CPUC on these and other issues. See detailed discussion in Section C.5 *infra*.

5. Stakeholder Participation

In the July 7, 2003 Status Report, the ISO provided the Commission with a list of stakeholder meetings prior to the July 22, 2003 filing of the Market Design Amendment. The ISO identified internal teams representing both technical and policy roles to continue working with these stakeholders to address remaining concerns about the Market Design Amendment, including state contract issues, the CRR Study and allocation process, and the final development of the new Existing Transmission Contract procedures. Since the July 22nd filing, the ISO has held two meetings:

- 1) July 28th – Meeting with the CPUC and the ISO. The CPUC and the ISO discussed the initial thoughts and structure of the CRR study and worked through next steps.

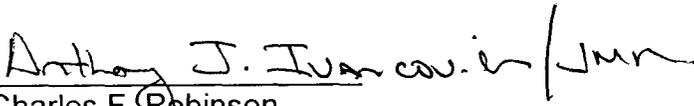
- 2) July 31st – Meeting with the CPUC, CERS, EOB, PG&E, SCE, SDG&E and the ISO regarding continued discussion of the state contract issues.

The ISO will keep the Commission apprised as to the progress of resolving these remaining issues.

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 F. Robinson
Anthony J. Ivancovich

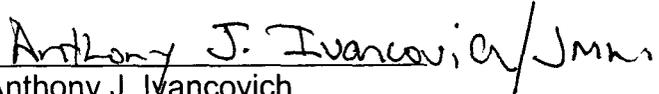
Counsel for the California Independent
Operator Corporation

Dated: August 4, 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 on the official service lists maintained by the Secretary for Docket Nos. ER02-1656-000 and EL01-68-017.

Dated at Folsom, California, this 4th day of August 2003.


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ATTACHMENT A

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