



# CALIFORNIA ISO

California Independent  
System Operator

October 4, 2004

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

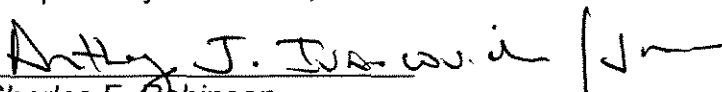
**Re: California Independent System Operator Corporation,  
Docket No. ER02-1656-009, 010 and 011 and Investigation of  
Wholesale Rates of Public Utility Sellers of Energy and  
Ancillary, Services in the Western Systems Coordinating  
Council, Docket No. EL01-68-017**

Dear Secretary Salas:

Enclosed for filing in the above-captioned dockets, please find the Status Report of the California Independent System Operator Corporation ("ISO") 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,

  
Charles F. Robinson  
Anthony J. Ivancovich  
The California Independent System  
Operator Corporation  
151 Blue Ravine Road  
Folsom, CA 95630

Attorneys for the California Independent  
System Operator Corporation

**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”)<sup>1</sup> 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<sup>2</sup>. 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

---

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

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<sup>3</sup>. 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. OCTOBER 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<sup>4</sup>. Section D identifies the ISO's key market redesign implementation issues including the previous month's accomplishments, major milestones, upcoming activities, issue

---

<sup>2</sup> This market redesign effort, previously known as "MD02", has been renamed Market Redesign & Technology Upgrade ("MRTU")

<sup>3</sup> November 27 Order at P 9.

<sup>4</sup> 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 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.

At midnight on October 1, 2004, the ISO and Market Participants successfully implemented Phase IB. Cutover activities started the morning of September 30, 2004 and the overall transition from the old merit order real time system ("BEEP") to the Real Time Market Application ("RTMA") software went relatively smoothly. The ISO would like to express its appreciation to all the Market Participants' for their input and effort over the past months to make this a success. Below are the final steps the ISO and Market Participants took to implement Phase IB.

At the September 15, 2004 ISO Board of Governors meeting, the ISO presented its recommendation to implement Phase IB on October 1, 2004. The ISO made its final determination to go-live on October 1 based on input from the ISO's *Internal Customers, Market Participants and the Phase IB Project Team.*

Comments received from the Internal Customers included that they were confident the systems were working as designed, operator training was on track and procedures were developed. Market Participants expressed concerns about the stability of the systems, readiness of internal and 3<sup>rd</sup> party software for testing, number of unresolved issues and Sarbanes-Oxley compliance. The ISO assured Market Participants that production systems were designed with redundancy and back out procedures were in place, software code was frozen as of September 15, 2004 for final internal and 3<sup>rd</sup> party testing, market simulation variances have been closed or a work-arounds identified prior to go live and Phase IB changes would be incorporated in the 2004 ISO SAS 70 audit available for Sarbanes-Oxley. The ISO responded to Market Participants' concerns and made them public through a Market Notice sent on September 15, 2004. The ISO Board of Governors concurred with the recommendation to implement Phase IB on October 1, 2004.

On September 17, 2004 the ISO issued a Market Notice of its intent to go-live on October 1, 2004 and filed a formal notice with the Commission<sup>5</sup>. Beginning September 20, 2004 the ISO sent out Market Notices to Market Participants outlining cutover activities for the implementation of Phase IB including:

---

<sup>5</sup> See Transmittal Letter for Amendment No. 54 to the ISO Tariff, Docket No. ER03-1046-000 (July 8, 2003) at 32; *California Independent System Operator Corporation*, 105 FERC ¶ 61,091, at ordering paragraph (B) (2003).

- Phase IB Cutover Timeline<sup>6</sup> and daily conference call-in numbers starting September 22 and concluding September 30
- Phase IB connectivity changes to SI, ADS and SLIC
- ADS Certificate and Application Installation Instructions for Production<sup>7</sup>
- Cutover Timeline for Bids<sup>8</sup> documentation

The daily conference calls were used to respond to Market Participants' questions and keep them apprised of the ISO's daily cutover activities.

Additionally, the ISO created the Phase IB Implementation page<sup>9</sup> and posted all final Phase IB documentation. The ISO established a Phase IB Deployment email box, transitioning from the Market Simulation mailbox, which will be used to convey cutover activities leading up to and after Phase IB goes live and to respond to Market Participants' questions. On September 24, 2004, the ISO started sending out test dispatches to allow Market Participants the opportunity to verify their connectivity to the Phase IB production system, which continued until 9 a.m. September 30, 2004. The ISO sent out a Market Notice on September 27, which detailed the cutover activities beginning September 30 through October 1, including the 24-hour bridge call-in number, Cutover Timeline, Cutover Timeline for Bids and a number of Phase IB reminders.

---

<sup>6</sup> The Cutover Timeline was posted to the ISO website at:  
<http://www.caiso.com/docs/2004/09/13/200409130906126772.doc>

<sup>7</sup> The ADS Certificate and Application Installation for Production was posted to the ISO website at: <http://www.caiso.com/docs/2004/09/21/2004092115455926497.pdf>

<sup>8</sup> The Cutover Timeline for Bids was posted to the ISO website at:  
<http://www.caiso.com/docs/2004/09/23/200409231722098055.pdf>

<sup>9</sup> The Phase IB Implementation page is located at:  
<http://www.caiso.com/docs/2004/09/21/200409211344558837.html>

While the transition was successful, the ISO will continue to closely monitor the systems over the next several weeks and work closely with Market Participants to resolve issues as they arise. The biggest operational issue encountered by the ISO was that of default ramp rate for units when no value is submitted with a bid. The RTMA software was deployed with the ramp rates defaulting to minimum as the subsequent request to change the default ramp rate to maximum was still pending before the Commission during cutover. The ISO ran into the difficulties expected with a default ramp rate set to minimum and has worked with Scheduling Coordinators to make sure that usable ramp rates would be available to reliably operate the system. The Commission's determination in the October 1, 2004 Order<sup>10</sup> that the default value should be maximum addresses this issue and the ISO has taken steps to change the default values from minimum to maximum. The ISO appreciates the timely action of the Commission in acting on this issue. In mid October, the ISO will publish advance Settlement statements to provide *early financial feedback to Market Participants and we have put in special monitoring procedures to make sure our SAS 70 controls are working as designed.*

**B. Market Redesign and Technology Upgrade (“MRTU”) Program**

The program has met all project milestones to date to meet the February 2007 implementation date. This is provided that there are no major changes to the conceptual design and development work to incorporate directives from regulatory orders are relatively minor. The key projects are transitioning out of

---

<sup>10</sup> *California Independent System Operator Corp.*, 109 FERC ¶ 61,006 (2004), posted on the

the design stages to software coding by the vendors with completion scheduled by mid 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 before the development phase closes out and vendors move into the testing phases. Design changes beyond the end of the software development phase will have a profound impact on the overall project schedule.

### **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 continues with its stakeholder process to resolve open policy issues.

Key activities include:

- Stakeholder meeting on the ISO market power mitigation proposal held on September 7, draft white paper, ISO's Proposed Revisions to its MRTU Market Power Mitigation Provisions<sup>11</sup> released on

---

FERC website at <http://www.ferc.gov/EventCalendar/Files/20041001195321-ER04-1087-000.pdf>

<sup>11</sup> The ISO Proposed Revisions to its MRTU Market Power Mitigation Provisions was posted to the ISO website at: <http://www.caiso.com/docs/2004/10/01/2004100114540519664.pdf>



October 1, 2004 with follow up stakeholder meeting October 7, 2004.

- Stakeholder meeting to clarify the components of the Transitional Alternative Pricing and Settlement proposal being explored by the ISO on September 17, 2004. Requesting additional written comments from stakeholders by October 1, 2004 and scheduled release of revised white paper on October 8, 2004.
- Stakeholder meeting to discuss the use of trading hubs and virtual bidding under MRTU on September 21, 2004. Request for additional written comments soliciting opinions on trading hub configurations proposed by the ISO or alternative preferences by October 1, 2004.
- The issuance of an ETC white paper, Proposal for Honoring Existing Transmission Contracts<sup>12</sup>, on September 20, 2004 and a follow up face-to-face meeting on September 27, 2004 with stakeholders to review the details of the ISO treatment of ETCs in the MRTU design.

## II. CONCLUSION

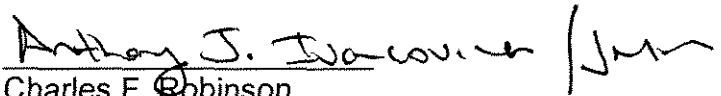
In Section I of this Report, the ISO has responded to the Commission's request for specific information on progress, critical issues, budget and *alternative methods for the market redesign implementation effort*. The ISO

---

<sup>12</sup> The Proposal for Honoring Existing Transmission Contracts was posted to the ISO website at: <http://www.caiso.com/docs/2004/09/20/2004092017132615416.pdf>

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: October 4, 2004

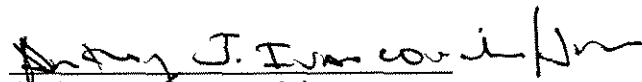
## ATTACHMENT A

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

## 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 4<sup>th</sup> day of October 2004.

  
Anthony J. Ivancovich

The California Independent System  
Operator Corporation  
151 Blue Ravine Road  
Folsom, California 95630