



CALIFORNIA ISO

California Independent
System Operator

November 1, 2004

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

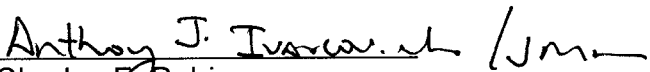
**Re: California Independent System Operator Corporation,
Docket No. ER02-1656-009, 010 and 011 and Investigation of
Wholesale Rates of Public Utility Sellers of Energy and
Ancillary Services in the Western Systems Coordinating
Council, Docket No. EL01-68-017**

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,



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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 the market redesign effort.² 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

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 This market redesign effort, previously known as “MD02”, has been renamed Market Redesign & Technology Upgrade (“MRTU”).

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

³ November 27 Order at P 9.

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.

During the first two weeks since deploying Phase IB on October 1, 2004, the ISO, with input from Market Participants, focused on (1) system reliability; (2) stabilizing the Real Time Market Application ("RTMA") system; and (3) responding to Market Participants' questions/concerns. The ISO continues to work closely with Market Participants to resolve issues as they arise. Market Participants have expressed some concern about the 5-Minute Dispatch Interval prices following Phase IB going live on October 1, 2004. The ISO communicated to stakeholders on Friday October 8, 2004 that it was analyzing all prices and expected energy quantities of the Real Time Market Systems to confirm the validity of prices established. The ISO conducted a detailed assessment of prices for the first twelve days of operations. Consequently, the ISO has

⁴ The narrative includes only non-confidential information.

corrected 5-Minute Dispatch Interval Prices for 581 intervals for trade dates October 1 through October 12. These results have been published on OASIS, and the prices are unlikely to change. The ISO expects that few further corrections will be required, as the system and operation have stabilized.

The reasons for the 5-Minute Dispatch Interval Price corrections include the following:

- Units were not allowed to set the price because they did not comply with dispatch instructions. The ISO corrected the price based on allowing these units to set the price. This reason caused 69% of the corrections.
- The ISO's Real Time Dispatch application ("RTD") did not run due to system issues or performance. The ISO used the last Interval price in this instance. This reason caused 8% of the corrections.
- The pricing module was not run during the first hours on October 1, 2004. The module was re-run after the fact. This reason caused 4% of the corrections.
- Pricing was incorrect due to a software defect. The ISO corrected prices after further analysis. This reason caused 2% of the corrections.
- Ramping issues, default ramp rate and other miscellaneous reasons. These reasons caused 17% of the corrections.

The ISO filed Amendment 62 with the Commission on August 3, 2004. One of the changes included suspending financial settlement of Uninstructed Deviation Penalties ("UDP") for a two-month period following the implementation

of Phase IB. During the two-month grace period, the ISO will provide Scheduling Coordinators ("SCs") with daily advisory UDP performance data for each SC's set of applicable resources. The intent of the UDP data is to provide timely feedback to SCs so that they can make any necessary operating adjustments prospectively, in order to minimize UDP exposure. During the two-month grace period, UDP charges will not be applied to either of the corresponding preliminary or final Settlement statements. On October 15, 2004 the ISO posted to its website a document, Specification for Settlements Files Related to Advisory Uninstructed Deviation Penalty (UDP) Detail Files v 1.07,⁵ that included a schedule for publishing the advisory UDP files during the two-month grace period and information on how Scheduling Coordinators can download the results. The ISO started publishing the advisory UDP data on October 19, 2004 and will continue through December 17, 2004.

Prior to the implementation of Phase IB, Market Participants requested the ISO publish preview Settlement Statements to allow participants the opportunity to review and submit any questions in advance of receiving the Preliminary Settlement Statements. In response to this request, the ISO published preview Settlement statements based on initial, non-settlement quality data for trade date October 3 on October 20 and will publish trade date October 4 on November 1.

⁵ The Specification for Settlements Files Related to Advisory Uninstructed Deviation Penalty (UDP) Detail Files v 1.07 is posted to the ISO website at: <http://www.caiso.com/docs/2004/06/30/2004063011243918579.pdf>

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 and work to incorporate directives from regulatory orders are relatively minor. The key projects are transitioning out of 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. Specifically, the ISO is currently tracking to the timeline outlined below:

Date	Activity
December 2004	Design Complete
July 2004 through July 2005	Code Development
December 2004 through August 2005	Unit testing at vendor sites
March 2005 through November 2005	Factory Acceptance testing of
July 2005 through December 2005	Site Acceptance Testing of individual systems at ISO
January 2006 through April 2006	System Integration and testing
May 2006 through June 2006	End to End Testing
July 2006 through August 2006	User Acceptance Testing
September 2006 through December	Market Simulation
January 2007	Code freeze and system preparation
February 2007	Go Live

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

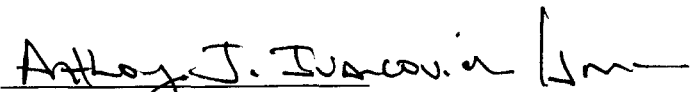
Resolution of Open Design and Policy Issues

The ISO seeks to resolve the remaining Open Design and Policy Issues in a reasonably expeditious manner so as to minimize the risk to the MRTU implementation schedule and budget. Progress in resolving the policy issues is detailed extensively in the ISO Board of Governors Memorandum to be posted on the ISO website on November 5, 2004.

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: November 1, 2004

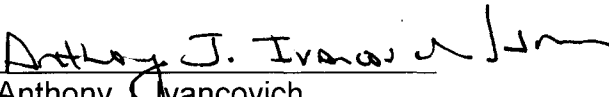
ATTACHMENT A

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 1st day of November 2004.


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