



CALIFORNIA ISO

California Independent
System Operator

April 7, 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,

A handwritten signature in black ink, which appears to read "Anthony J. Ivancovich" followed by a stylized flourish.

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

**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 ISO's Market Redesign ("MD02"). The Commission directed the ISO to file a full MD02 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

¹ 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 MD02 elements; (2) the ISO's progress in developing MD02 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 MD02 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. The ISO also filed monthly Status Reports in February and March. 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 MD02 implementation.

I. APRIL STATUS REPORT

Section A includes a narrative of the significant changes to the MD02 Program Plan – High Level schedule activity that have occurred since the filing of the prior month's Status Report. Section B includes a narrative regarding the MD02 budget along with an updated Budget Tracking and Status Report.³ The Budget Tracking and Status Report itself 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 commercially prudent to reveal estimates of vendor costs prior to negotiation and contracting with successful

² November 27 Order at P 9.

bidders. Section C identifies the ISO's key MD02 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 March 3, 2003 Status Report, the ISO reported that it was unlikely the ISO would be able to implement Phase IB⁴ prior to October 1, 2003. The vendor and the ISO have agreed on final design details and software development is underway. Initial delivery of code to the ISO is scheduled for the end of May, which keeps the ISO on track for the October implementation date.

Phases II and III: In the March 3, 2003 Status Report, the ISO reported that it had released the Integrated Forward Market/Locational Marginal Pricing using the Full Network Model Request For Proposals ("IFM/LMP RFP") on February 28, 2003 to three pre-qualified vendors. The ISO held a Bidders' Conference on March 12, 2003 to present an overview of the Phase II and Phase III components of the IFM/LMP RFP and respond to any questions. Additionally, bidders had until March 12th to submit additional questions, with the ISO responding to the questions by March 21, 2003. All three vendors submitted responses for the services under the IFM/LMP RFP on March 26, 2003. During the next six weeks, four ISO business unit teams will be evaluating the

³ The narrative includes only non-confidential information.

⁴ Phase IB involves implementing software that (1) contains an economic dispatch algorithm to clear overlapping Real-Time Energy bids continuously so that there will be a single price in each ten-minute interval, and (2) allows, *inter alia*, generators to modify unit availability in Real-Time and enable the ISO to impose penalties for uninstructed deviations.

responses to the IFM/LMP RFP. Among the four teams, over 300 criteria are being evaluated in the areas of Project Management, Information Services, Business Requirements, and Commercial viability. The Evaluation Teams will also interview the bidders. Questions stemming from the Evaluation Criteria are being developed at this time for the interview process.

B. MD02 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. The Budget report for March includes an initial payment for Phase IB functionality. At its March 27th meeting, the Board approved additional funding for staff augmentation and a LMP study tool.

C. Key Issues

1. Settlements Request for Information

The ISO posted to its website on March 7, 2003 a Request for Information ("RFI") for Phase II and Phase III Settlements and Market Clearing Systems. The RFI invited interested entities to submit details of their products, services, qualifications and experience in providing integrated settlement and market clearing systems for electricity markets by March 21, 2003. The ISO received

nine responses to the RFI and currently is reviewing the responses to determine those qualified to receive the Settlements RFP.

2. Phase IB Technical Issues

Beginning March 11, 2003, the Phase IB team will conduct bi-weekly conference calls to discuss issues that arise and keep stakeholders apprised of the implementation of Phase IB. The ISO anticipates that the content of these calls will cover interface issues with Scheduling Coordinators and related system design changes. Topics recently discussed include detail design changes to settlement equations and real-time bidding template modifications. In addition to the bi-weekly meetings, the ISO has issued a request for all generator owners to update the operational technical data associated with their resource, such as operational ramp rate capabilities. This data will be critical to the implementation of Phase IB.

3. Comprehensive Issues Matrix

In response to stakeholders' request, the ISO posted to its website on March 7, 2003 the MD02 Comprehensive Issues Matrix ("CIM"), which included the 166 topics identified by the Working Groups, Joint Application Design ("JAD") sessions and internal Design Walkthroughs. The document can be found at: <http://www.caiso.com/docs/2003/03/07/2003030716335313992.pdf>. The ISO stated its position on each issue and identified those issues where flexibility was incorporated into the IFM/LMP RFP. Stakeholders were given the opportunity to submit comments on the CIM issues to the ISO by March 20, 2003. The ISO

received comments from parties. The ISO addressed these comments in the April 1-4, 2003 stakeholder meetings. See detailed discussion in Section C.6, *infra*.

4. Locational Marginal Pricing Studies

In the March Status Report, the ISO reported that the ISO's Board of Governors had directed ISO Staff to continue with its ongoing LMP study effort in order to evaluate fully the effect of locational marginal pricing on energy prices in the State of California. A third LMP price dispersion study is underway and the assumptions were presented to stakeholders on April 3, 2003. See detailed discussion of the April 3rd stakeholder meeting in Section C.6, *infra*.

5. LMP Cost-Benefit Analysis

The ISO Board of Governors, in response to a request from the California State Legislators has asked ISO Management to undertake a peer-reviewed LMP Cost Benefit Analysis. The ISO currently is talking with potential vendors and determining the scope of the study. Until the scope of the study is determined and a vendor is selected, the ISO cannot estimate reasonably when this study will be completed.

6. Stakeholder Meetings – April 1-4, 2003

The ISO conducted four stakeholder meetings from April 1-4, 2003. The first two days were dedicated to presenting the elements of the Integrated Forward Market, providing examples of different scheduling and bid scenarios, and discussing how each example would proceed through the forward markets

from submission of a bid, through real-time, and finishing in Settlements.

Additionally, the ISO discussed the CIM comments received from stakeholders and the ISO's process for addressing deferred topics. The remaining two days were used for presenting the second LMP price dispersion study conducted by the ISO, reviewing the design details of the third LMP price dispersion study, discussing LMP and CRR topics, and providing the ISO's proposed resolutions for issues that needed to be included in a future MD02 filing for authorization to implement the Phases II and III long-term market design elements.

7. MD02 Conceptual Filing With The Commission

In the March Status Report, the ISO reported that the Board directed ISO Staff to continue development activity necessary to incorporate changes to the May 1st MD02 Comprehensive Market Design proposal. The Board will need to review and authorize any filing. The CAISO also will continue its dialogue with members and staff of the California State Legislature regarding the effect of locational marginal pricing. The ISO will continue to provide information on the status of the filing in these monthly Status Reports.

8. Upcoming State and Federal Meetings

a. Electricity Oversight Meeting

The Electricity Oversight Board ("EOB") held a meeting on March 21, 2003 to discuss the ISO's MD02 proposal. The focus of the meeting was on locational marginal pricing, local market power mitigation and congestion revenue rights. A number of individuals presented their opinions on these topics, and the ISO

responded to comments and questions raised by EOB members and other presenters.

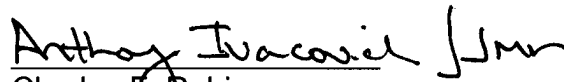
b. Doug Ose Hearing

On April 8, 2003, the Subcommittee on Energy Policy, Natural Resources and Regulatory Affairs will hold a hearing entitled, "California Electricity Market: Refunds and Reform". Terry M. Winter, ISO President and CEO, has been invited to testify regarding the efforts to reform California's energy market. Mr. Winter's testimony will include a discussion of the current status of the MD02 process.

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 MD02 implementation effort. The ISO appreciates having the opportunity to comment and report on the progress being made in MD02.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Anthony J. Ivancovich", is written over the printed name of Charles R. Robinson.

Charles R. Robinson
Anthony J. Ivancovich

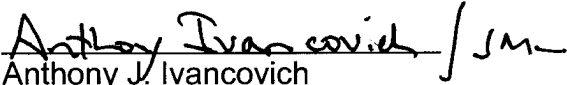
Counsel for the California Independent
Operator Corporation

Dated: April 7, 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, 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 April 2003.


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ATTACHMENT A

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