



CALIFORNIA ISO

California Independent
System Operator

December 6, 2004

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

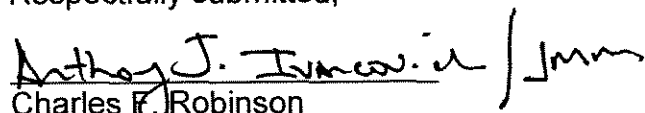
**Re: *California Independent System Operator Corporation,
Docket No. ER02-1656-009, 010 and 011 and Investigation of
Wholesale Rates of Public Utility Sellers of Energy and
Ancillary, Services in the Western Systems Coordinating
Council, Docket No. EL01-68-017***

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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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 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

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

The Market Redesign and Technology Upgrade (“MRTU”) Program comprises seven major system projects – (1) Integrated Forward Markets/Real-Time Nodal/Full Network Model (“IFM/RTN/FNM”), (2) Scheduling Infrastructure Business Rules (“SIBR”), (3) Congestion Revenue Rights (“CRR”), (4) Settlements and Market Clearing (“SaMC”), (5) Master File Redesign (“MFRD”), (6) Post Transaction Repository (“PTR”) and (7) Legacy Systems. Each project is at a different stage of implementation.

- IFM/RTN/FNM is on schedule to complete initial development stage by February 2005.
- SIBR is on schedule to complete detailed design stage in January 2005.
- CRR is scheduled to complete contract negotiations with the preferred vendor in January 2005.
- SaMC:
 - Stage 1 (current ISO markets) is on track to complete the design stage in January 2005.
 - Stage 2 (MRTU design) is on track to complete the design stage in February 2005.

⁴ The narrative includes only non-confidential information.

- Market Clearing is on track to complete the design stage in February 2005.
- MFRD is on schedule to complete the design stage in February 2005.
- PTR is on schedule to complete the design stage in February 2005.
- Legacy Systems is on schedule to complete the design stage in July 2005.

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, the amounts that have been budgeted through the internal ISO process, and actual expenditures to date.

C. Key Issues

1. Resolution of Open Design and Policy Issues

In the October 28, 2003, order regarding the ISO's MRTU proposal ("October 28 Order"), the Commission directed the ISO to file, within sixty days of the California Public Utilities Commission's ("CPUC's") final order on Resource Adequacy, a filing that details changes to the ISO's proposed market design necessary as a result of CPUC's order. On October 28, 2004, the CPUC issued an order on resource adequacy. Therefore, pursuant to the Commission's

directive in the October 28 Order, the ISO's compliance filing is due December 27, 2004.

The ISO is currently examining and considering proposed changes to its proposed design based on the CPUC's order. To that end, the ISO presented its revised Market Power Mitigation Proposal to stakeholders on November 17, 2004. Elements reviewed with stakeholders included the Flexible Offer Obligation, Damage Control Bid Caps, System Market Power Mitigation for Energy Bids, System Market Power Mitigation for Residual Unit Commitment ("RUC") Availability Bids and Local Market Power Mitigation for Energy and RUC Bids. In addition, the ISO has also identified other possible changes to the proposed design, including Residual Unit Commitment compensation and the applicability of any Must-Offer or Flexible-Offer type obligation.

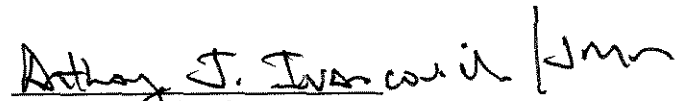
In order to consider these important issues further, on November 30, 2004, the ISO filed a request for extension of time to file the above noted compliance filing. The ISO requested an extension until February 7, 2005, so that the ISO Governing Board can consider these issues at its January Board meeting. In addition, and in order to consider its proposal further, the ISO also requested a seven-week delay in making its compliance filing regarding the Hour-Ahead Market.

Finally, the ISO anticipates that it will file its final proposal regarding the treatment of Existing Transmission Contracts under MRTU on or around December 8, 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 E. Robinson
Anthony J. Ivancovich

Counsel for the California Independent
Operator Corporation

Dated: December 6, 2004

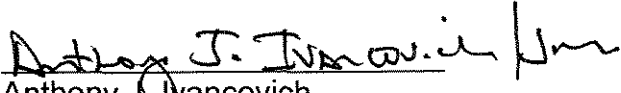
ATTACHMENT A

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 and 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 6th day of December 2004.


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