



February 4, 2005

VIA FEDERAL EXPRESS

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 an original and 14 copies of the Status Report of the California Independent System Operator Corporation ("ISO"). These copies contain a redacted version of Attachment A. The ISO is also submitting one copy marked **CONFIDENTIAL**, which has a nonredacted version of Attachment A. The ISO requests privileged treatment for the instant filing pursuant to 18 C.F.R. § 388.112 because public disclosure of the entire contents of Attachment A would disclose confidential business information and jeopardize the ISO's future negotiation with vendors regarding implementation of the market redesign.

Two additional copies of the public version of this filing are enclosed. Please date-stamp them and return them in the self-addressed prepaid Federal Express envelope.

Respectfully submitted,

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Operator Corporation
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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 effort². 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

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 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 costs³. 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. FEBRUARY 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 Report⁴. Section D identifies the ISO's key market redesign implementation issues including the previous month's accomplishments, major milestones, upcoming activities, issue

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

³ November 27, Order at P 9.

⁴ 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. Market Redesign and Technology Upgrade (“MRTU”) Program

The Market Redesign and Technology Upgrade (“MRTU”) Program is comprised of seven major system projects – (1) Integrated Forward Markets/Real-Time Market/Full Network Model (“IFM/RTM/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 different stages of implementation.

- IFM/RTM/FNM: on schedule to complete initial development stage in February 2005
- SIBR: on schedule to complete detailed design stage in February 2005
- CRR: completed contract negotiations with the preferred vendor in January 2005
- SaMC:
 - Stage 1 (current ISO markets) – on schedule to complete the technical design stage at the end of February 2005
 - Stage 2 (MRTU design) – on schedule to complete the technical design stage in June 2005
 - Market Clearing –completed the design stage in January 2005

- MFRD: on schedule to complete the design stage in February 2005
- PTR: on schedule to complete the design stage in August 2005
- Legacy Systems: 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

The ISO presented its final Inter-SC Trades (“IST”) proposal for MRTU⁵ to Market Participants on January 11, 2005. The meeting objectives included reviewing stakeholder comments and potential modifications to the IST design proposal. At the January 27, 2005 ISO Board of Governors meeting, the ISO requested and received ISO Board approval to file with the Commission its conceptual design proposal for Inter-Scheduling Coordinator Trades under Market Redesign and Technology Upgrade (“MRTU”). The ISO plans to file the IST proposal with the Commission prior to filing its refined conceptual design proposal currently targeted for April 2005.

⁵ On January 14, 2005, the ISO posted its final Comprehensive Design Proposal for Inter-SC Trades Under MRTU to the ISO website at:
<http://www.caiso.com/docs/2005/01/14/2005011409344729937.pdf>

Over the past couple of months the ISO, in conjunction with ISO Board members, have been evaluating the MRTU project from a conceptual design and implementation standpoint. The purpose of the assessment was to ensure that the MRTU proposal and project would satisfy the following objectives: (1) support the ISO's core functions of reliable operation of, and open-access to, the transmission system; (2) provide consistency across market timeframes, specifically, allocate and price of use of the transmission grid in the day-ahead timeframe in a manner consistent with real-time grid operation; (3) assure efficient market outcomes and provide consumers with sufficient protection from the exercise of market power; (4) assure consistency between the ISO's market redesign and the rules regarding resource adequacy being developed by the California Public Utilities Commission ("CPUC") proceeding; and (5) implement the new design as soon as possible to alleviate reliability and economic problems associated with the current market design.

The assessment also included determining what changes to the proposed design were appropriate to resolve the remaining open policy issues. These changes were divided into two categories: (1) changes necessary to ensure the design satisfies the above-stated objectives; and (2) changes that are desirable but not critical to the design on day one of the new market. The ISO identified the following "necessary" changes: (1) modify the procedure in which load bids are cleared in the Integrated Forward Market under the ISO's previously proposed Load Aggregation Pricing ("LAP") proposal; (2) functionality required to support and facilitate resolution of the Seller's Choice Contract issue; (3) final

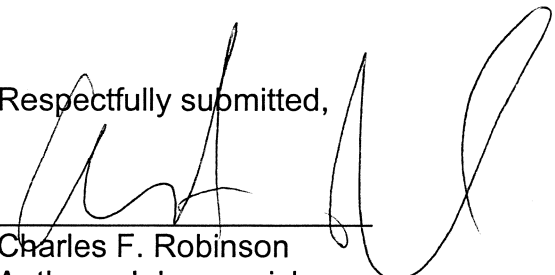
form and function of the ISO's proposed market power mitigation measures; and (4) design features necessary to ensure reliable operation of the grid. The ISO determined that it is important to implement the new market design prior to summer 2007 and incorporating the critical changes.

The ISO anticipates reviewing its proposed market design in February and early March and presenting the design at the March ISO Board meeting. Based on the outcome of the Board meeting, the ISO would then file a refined conceptual design proposal with the Commission in April 2005.

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
System Operator Corporation

Dated: February 4, 2005

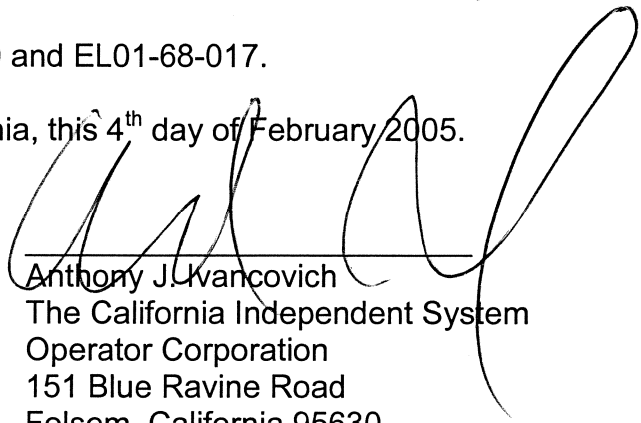
ATTACHMENT A

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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 4th day of February 2005.



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