



CALIFORNIA ISO

California Independent
System Operator

January 3, 2005

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 that reads "Charles F. Robinson" with a stylized flourish at the end.

Charles F. Robinson
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Operator Corporation
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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")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

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 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 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. JANUARY 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

³ November 27 Order at P 9.

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 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 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 different stages 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) – on track to complete the design stage in January 2005

⁴ The narrative includes only non-confidential information.

- Stage 2 (MRTU design) – on track to complete the design stage in February 2005
- Market Clearing – 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

The ISO presented its Inter-SC Trades (“IST”) proposal for MRTU⁵ to Market Participants on December 9, 2004. The meeting objectives included (1) reviewing the schedule for finalizing the IST design; (2) reviewing the IST design proposal with stakeholders; and (3) seeking stakeholder written comment

⁵ On November 19, 2004, the ISO posted its Proposed Market Rules for Inter-SC Trade Functionality Under MRTU to the ISO website at: <http://www.caiso.com/docs/2004/11/19/2004111912581317882.pdf>.

by December 22, 2004.⁶ The ISO will hold a second stakeholder workshop on January 11, 2005, at which time the ISO will respond to stakeholder written comment and discuss any changes to the IST design. The ISO anticipates seeking ISO Board approval of the final IST design at the January 27, 2005 meeting and file its proposed design with the Commission in early February 2005. In addition, the ISO filed its Proposal for Honoring Existing Transmission Contracts under MRTU on December 8, 2004.⁷

2. Resource Adequacy Proceedings

On October 28, 2004, the California Public Utilities Commission (“CPUC”) issued an order on resource adequacy and identified two sets of issues to be addressed in the Phase 2 workshops. These issues included: (1) completion of protocols, conventions and deliverability screens and (2) development of reporting requirements, process of review, penalties and sanctions. A schedule for the Phase 2 workshops was adopted at a November 16 meeting.

The first round of workshops was held in December with the next round scheduled for January 12, 13, 18, 19, 25 and 26, 2005. The ISO is actively involved in these discussions and will keep the FERC apprised as the resource adequacy framework unfolds.

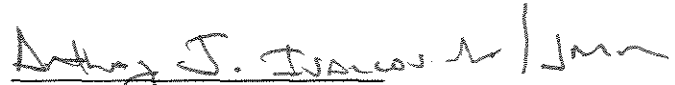
⁶ The ISO posted stakeholder comments to the ISO website at: <http://www.caiso.com/docs/2004/03/09/2004030909140522185.html>.

⁷ The Proposal for Honoring Existing Transmission Contracts Under MRTU was posted to the ISO website at <http://www1.caiso.com/docs/2004/12/08/2004120814505216936.pdf>.

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: January 3, 2005

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 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 3rd day of January 2005.


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ATTACHMENT A

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