



September 2, 2005

**VIA FEDERAL EXPRESS – PUBLIC VERSION**

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 ("CAISO"). These copies contain a redacted version of Attachment A. The CAISO is also submitting one copy marked **CONFIDENTIAL**, which has a nonredacted version of Attachment A. The CAISO 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 CAISO'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  
System Operator Corporation

**UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION**

California Independent System Operator Corporation	)	Docket No. ER02-1656-009
	)	
	)	
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 (“CAISO”)<sup>1</sup> 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 CAISO to file reports on the first Monday of each month, beginning in January 2003, to update the Commission on the CAISO’s progress in designing and implementing the market redesign effort.<sup>2</sup> The Commission directed the CAISO 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

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<sup>1</sup> Capitalized terms not otherwise defined herein are used in the sense given in the Master Definitions Supplement, Appendix A to the ISO Tariff.

<sup>2</sup> This market redesign effort, previously known as “MD02”, has been renamed Market Redesign & Technology Upgrade (“MRTU”)

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 CAISO'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.<sup>3</sup> The Commission directed the CAISO to update the market redesign implementation plan on a monthly basis, indicating the progress made and the upcoming steps.

On January 10, 2003, the CAISO filed its first Status Report in compliance with the November 27 Order. Subsequent to the first filing, the CAISO 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. SEPTEMBER STATUS REPORT**

Section A includes a narrative of the Market Redesign and Technology Upgrade Program along with the current status of the seven major system projects.<sup>4</sup> Section B includes a narrative regarding the budget along with an updated Budget Tracking and Status Report.<sup>5</sup> Section C identifies the CAISO's key market redesign implementation issues including the previous month's accomplishments, major milestones, upcoming activities, issue resolution with

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<sup>3</sup> November 27 Order at P 9.

<sup>4</sup> The major milestones for the MRTU projects are included in Attachment B.

stakeholders and items requiring timely resolution by the Commission in order to meet the project schedule.

**A. Market Redesign and Technology Upgrade 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) Legacy Systems, (6) Master File Redesign (“MFRD”) and (7) Post Transaction Repository (“PTR”). The aforementioned projects are at different stages of implementation, but are projected to converge by January 2006 for system integration and integration testing. Attachment B – MRTU Update – is a graphical depiction that provides the current status for each of the MRTU projects during the various stages of implementation, including design, development, pre-factory acceptance testing, factory acceptance testing and site acceptance testing.

**B. Market Redesign Budget Update**

Attachment A -- the Budget Status and Tracking Report (which remains confidential) – summarizes expected cost at completion compared to the May 2004 budget. Specifically, Attachment A shows the program budget amount, actual costs to date, estimated costs to complete and the project cost at completion.

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<sup>5</sup> The narrative includes only non-confidential information.

## **C. Key Issues**

### **1. Resolution of Open Design and Policy Issues**

The CAISO held two sets of Market Redesign and Technology Upgrade Stakeholder meetings on August 16 – 18 and August 30 – September 1, 2005. The primary focus of the meetings was to resolve the remaining outstanding MRTU issues and discuss the CAISO's responses to stakeholders' comments on the MRTU Tariff language.

Discussion topics for the August 16-18 meeting included:

1. Update on Simplified and Reorganized Tariff
2. Discussion about CAISO's responses to MRTU Tariff – Part 1
3. Resource Adequacy – MRTU Integrations Issues
  - a. Partial RA Units
  - b. Treatment of Use-limited Resources
  - c. Obligation for Short Start Units
  - d. Non-CPUC Jurisdictional Entities
  - e. Multi-Day Unit Commitment
4. Market Power Mitigation Issues
  - a. Competitive Path Assessment
  - b. Frequently Mitigated Units Bid Adder
  - c. Default Energy Bid issues
5. Outstanding ETC issues
  - a. Losses and other settlement charges
  - b. Validation

6. Inter-tie Pre-Dispatch Pricing
7. Trading Hubs
8. CRR Study 2 Report and Results
9. CRR Allocation Rules
  - a. Proposed Rules for LSEs serving internal load
  - b. Proposal for Out of Control Area load
  - c. Proposal for Merchant Transmission

Discussion topics for the August 30 – September 1 meeting included:

1. General Overview: Redesigned Market Process and Timeline
2. Resource Adequacy – MRTU Integrations Issues
  - a. RA-based Must-Offer Obligation
  - b. Local Reliability Backstop
3. Day-Ahead/Real-Time Market Design Issues
  - a. Ancillary Services Pricing in HASP and Real-Time
  - b. Inter-SC Trades of Ancillary Services
  - c. Integration of Participating Intermittent Resources (PIRP) with MRTU
  - d. Treatment of Losses on ETC Schedules
4. CRR Study 2: Final Report and Results
5. LMP Study 3B
6. CRR Allocation Rule
  - a. Proposed Rules for LSEs Serving Internal Load
  - b. Proposed Rules for Merchant Transmission

7. Update on MRTU Tariff process, including Simplified and Reorganized Tariff

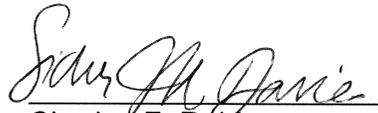
8. Discussion about CAISO's responses to MRTU Tariff – Part 1 & 2

The next MRTU stakeholder meeting is scheduled for September 20-22, 2005.

## II. CONCLUSION

In Section I of this Report, the CAISO 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 CAISO 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  
Sidney Mannheim Davies

Counsel for the California Independent  
System Operator Corporation

Dated: September 2, 2005

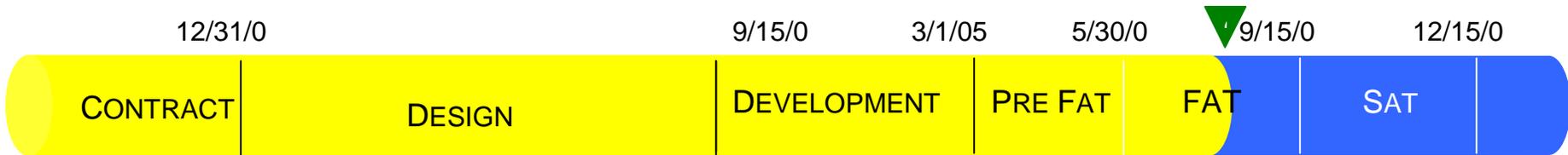
**ATTACHMENT A**

**REDACTED**

## **ATTACHMENT B**

# Major Projects

## Integrated Forward Markets/Real-time Market/Full Network Model - IFM



## Scheduling Infrastructure Business Rules – SIBR



## Congestion Revenue Rights - CRR



### Testing LEGEND

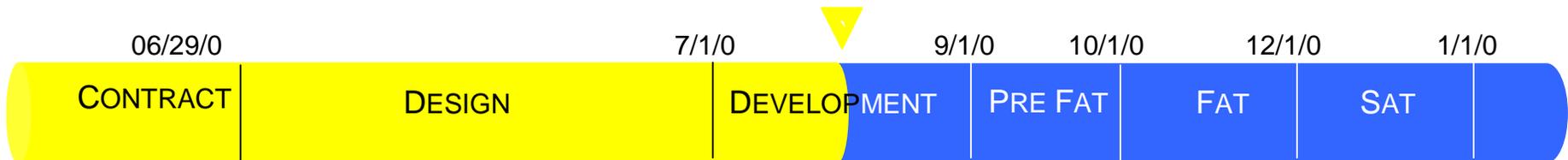
Pre- Factory Acceptance Testing (Pre-FAT): Vendor test of system functionality and performance with ISO review  
 Factory Acceptance Testing (FAT): Formal test at vendor facility to confirm system functionality and performance with ISO  
 Site Acceptance Testing (SAT): Formal test at ISO to confirm system functionality and performance

# Major Projects

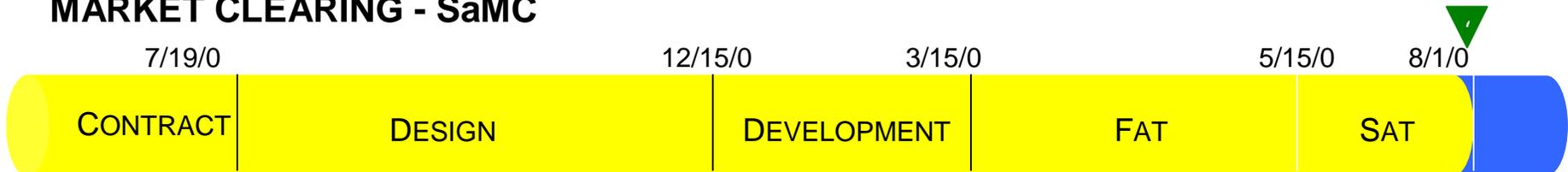
## SETTLEMENTS, STAGE 1 - SaMC



## SETTLEMENTS, STAGE 2 - SaMC



## MARKET CLEARING - SaMC



# Internally Developed Projects

## LEGACY



## MASTER FILE REDESIGN



## POST TRANSACTION REPOSITORY - PTR



## CERTIFICATE OF SERVICE

I hereby certify that I have caused the public version of the foregoing document to be served 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 2<sup>nd</sup> day of September 2005.

  
Sidney Mannheim Davies