



September 30, 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 of this letter 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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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”)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 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.² 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

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”)

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.³ 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. OCTOBER 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.⁴ Section B includes a narrative regarding the budget along with an updated Budget Tracking and Status Report.⁵ Section C identifies the CAISO's key market redesign implementation issues including the previous month's accomplishments, major milestones, upcoming activities, issue resolution with

³ November 27, Order at P 9.

⁴ 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.

⁵ The narrative includes only non-confidential information.

C. Key Issues

1. Resolution of Open Design and Policy Issues

The CAISO postponed the September 20-22 Market Redesign and Technology Upgrade Stakeholder meetings to allow stakeholders more time to review the draft documents on the remaining MRTU issues. These meetings were rescheduled for October 5-6, 2005.

Discussion topics will include the following:

1. Day-Ahead / Real-Time Market Design
 - a. Inter-SC Trades of Ancillary Services
 - b. Bilateral Trade Settlement Example
2. Resource Adequacy – MRTU Integrations Issues
 - a. Must Offer Obligation on Short Start Units
 - b. Must Offer Obligation on Imports
3. Market Pricing and Settlement
 - a. Treatment of Marginal Loss Over collection
 - b. Granularity of Load Aggregation Points (LAPs)
4. Transmission Rights
 - a. Summary of Proposed MRTU Treatment for ETCs/TORs
5. Congestion Revenue Rights
 - a. Allocation Rules for LSEs Serving Internal Load

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,


Sidney Mannheim Davies

Counsel for the California Independent
System Operator Corporation

Dated: September 30, 2005

ATTACHMENT A

REDACTED

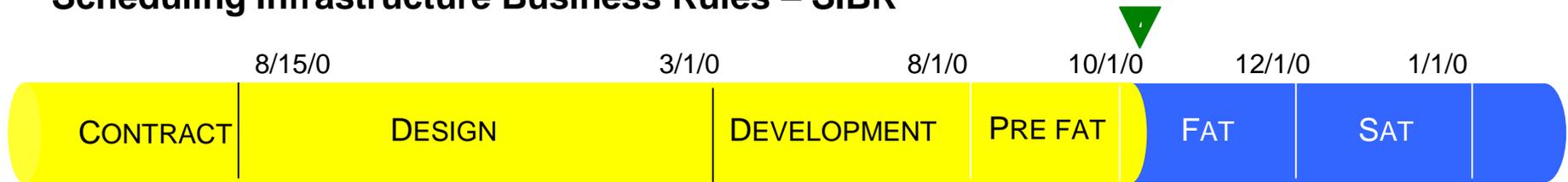
ATTACHMENT B

Major Projects

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



Scheduling Infrastructure Business Rules – SIBR



Congestion Revenue Rights - CRR

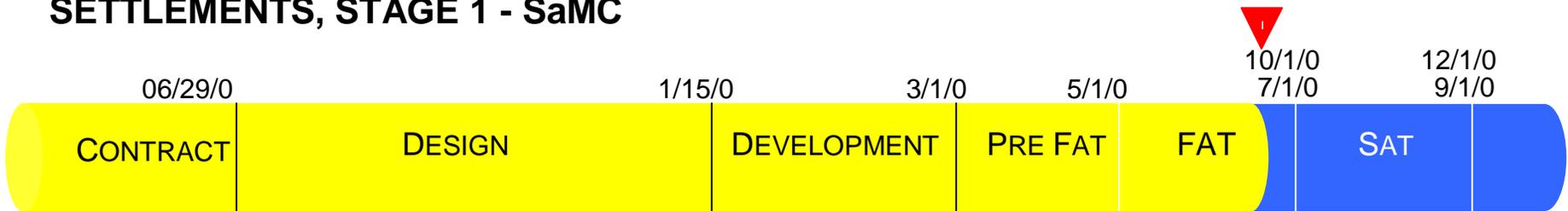


Testing LEGEND

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

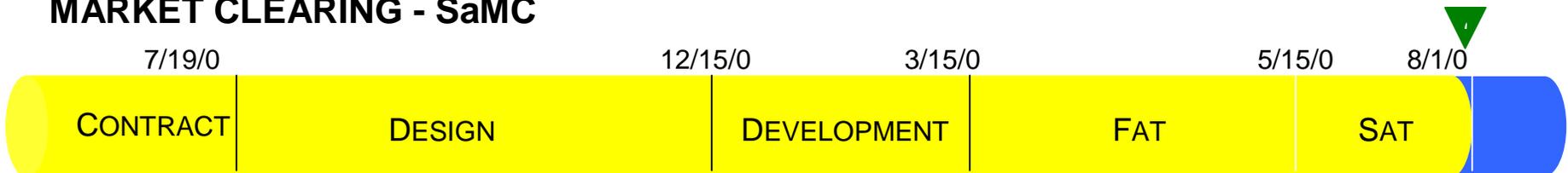
SETTLEMENTS, STAGE 1 - SaMC



SETTLEMENTS, STAGE 2 - SaMC

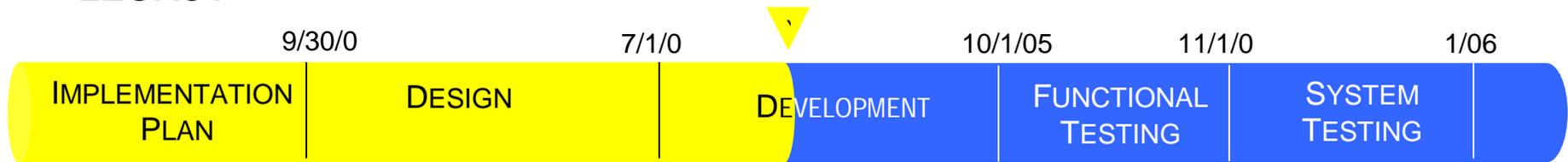


MARKET CLEARING - SaMC



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 30th day of September 2005.



Sidney Mannheim Davies