

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

California Independent System Operator Corporation)	Docket No. ER02-1656-000
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Investigation of Wholesale Rates of Public Utility Sellers of Energy and Ancillary Services in the Western Systems Coordinating Council)	Docket No. EL01-68-017
)	
)	

REQUEST FOR REHEARING AND CLARIFICATION OF THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION

Pursuant to Section 313(a) of the Federal Power Act, 16 U.S.C. § 825l (a), and Rule 713 of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission (“Commission”), 18 C.F.R. § 385.713, the California Independent System Operator Corporation (“CAISO”)¹ hereby requests that the Commission grant rehearing and clarification of its “Order on Further Development Of The California ISO’s Market Redesign And Establishing Hearing Procedures” issued on June 17, 2004 in the captioned proceeding (“June 17 Order”).² The CAISO also requests that the Commission grant clarification or, in the alternative, rehearing of certain statements that it made with respect to Congestion Revenue Rights (“CRRs”) in its October 28, 2003 “Further Order On The California Comprehensive Market Design Proposal.” (“October 28 Order”).³

In support here, the CAISO respectfully states as follows:

¹ Capitalized terms not otherwise defined herein are defined in the Master Definitions Supplement, ISO Tariff Appendix A, as filed on August 15, 1997, and subsequently revised.

² *California Independent System Operator Corporation*, 107 FERC ¶ 61,274 (2004).

³ *California Independent System Operator Corporation*, 105 FERC ¶ 61,140 (2003).

I. BACKGROUND

On July 22, 2003, the CAISO filed a Revised Comprehensive Market Design Proposal (“MD02 Filing”) with the Commission. On October 28, 2003, the Commission issued its “Further Order On The California Comprehensive Market Redesign Proposal.” In its October 28 Order, the Commission approved in principle many of the conceptual market design elements submitted by the ISO. The Commission also provided guidance as to other issues and sought additional explanation of and information regarding other elements. The Commission emphasized that its October 28 Order provided guidance only and that the Order was advisory in nature. Accordingly, the Commission stated that the October 28 Order was not subject to rehearing. October 28 Order at P 2.

In its October 28 Order, the Commission provided guidance with respect to the CAISO’s CRR proposal. In that regard, the Commission approved in concept numerous aspects of the CAISO’s CRR proposal. The Commission also required the CAISO to “file detailed information on the proposed first year allocation when it files its proposed tariff instituting the CRR allocation method.”⁴ October 28 Order at P 172. Further, the Commission directed the CAISO “to make an initial filing of this allocation information as soon as practicable but at least three months prior to its tariff filing. *Id.*”

During the first three months of 2004, the Commission Staff convened a series of technical conferences to discuss certain market design issues. The issues discussed at the technical conferences included, *inter alia*, (1) the

⁴ The Commission stated that the filing should include, at a minimum, each participant’s expected allocation of FTRs based on the proposed tariff allocation method and CRRs.

Commission's flexible must offer obligation proposal; (2) the residual unit commitment ("RUC") process; (3) pricing for constrained output generators; (4) marginal losses; (5) Ancillary Services ("A/S") procurement; and (6) the ISO's proposal for a simplified Hour-Ahead market. Subsequent to the technical conferences, the ISO and other parties filed comments with the Commission setting forth their positions/proposals on the aforementioned issues.

In the June 17 Order, the Commission, *inter alia*, made substantive rulings on the six issues discussed at the technical conferences as well as the issue of virtual bidding. With respect to the ISO's RUC proposal, the Commission ruled that generators should be permitted to adjust Day-Ahead energy bids for units that were not selected in the Day-Ahead integrated forward market ("IFM"), but which are committed for capacity in the Day-Ahead RUC. June 17 Order at P 79. The Commission rationalized this determination by stating that generators should be permitted to increase their energy bids above those submitted in the Day-Ahead market to reflect the possibility that fuel cost might increase between the Day-Ahead and Real-Time markets. *Id.*

In its June 17 Order, the Commission also concluded that

the absence of virtual bidding has the potential to create many other problems in the operation of California's markets. Virtual bidding would help ameliorate issues regarding temporal market power, physical scheduling incentives, day-ahead pricing of constrained output generation, and the financial risks associated with real-time scheduling deviations.

October 28 Order at P 157. Accordingly, the Commission directed the CAISO to submit, as part of the tariff filing directed in the October 28 Order, either tariff

sheets to implement virtual bidding simultaneously with the implementation of the Day-Ahead market, or a full explanation of why this should not be done, and the date when it would be implemented. *Id.* at P 159.

Finally, in its June 17 Order, the Commission instituted further procedures to address CRR issues. Specifically, the Commission directed its staff to convene a technical conference on CRRs. Although the Commission reiterated some of the discussion in the October 28 Order regarding CRRs, the Commission did not discuss the specific requirements in the October 28 Order that the ISO "file detailed tariff information on the proposed first year allocation when it files its proposed tariff instituting the CRR allocation method" and "make an initial filing of [the CRR] allocation information...at least three months prior to its tariff filing." See October 28 Order at P 172.

II. GROUNDS FOR REHEARING AND SPECIFICATIONS OF ERROR

The CAISO submits that the Commission erred in marking the following determinations:

- (1) Generating units should be allowed to adjust their Day-Ahead IFM energy bids if they are not taken in the market, but subsequently are selected for Day-Ahead RUC; and
- (2) The CAISO must (a) file detailed information on the proposed first year CRR allocation when the CAISO files CRR Tariff language and (b) file CRR allocation information at least three months prior to filing CRR Tariff language.⁵

The CAISO will discuss these items *seratim*. The CAISO requests that the Commission grant the instant request for rehearing and vacate the foregoing

⁵ The CAISO is requesting Commission action on these items now because the October 28 Order was not subject to rehearing. Although the June 17 Order did not discuss these issues specifically, the June 17 Order did discuss further procedures that would apply to CRR issues. Because the June 17 Order is subject to rehearing, the CAISO is raising these issues herein.

determinations consistent with the discussion herein.⁶ The CAISO also requests that the Commission clarify that when it approved implementation of virtual bidding for the CAISO, it meant “explicit” virtual bidding not “implicit” virtual bidding. If that was not the Commission’s intention, then the ISO seeks rehearing of the Commission’s determination.

A. The Commission Erred In Granting Units Selected In Day-Ahead RUC An Unlimited Re-Bid Opportunity

In its June 22, 2003 MD02 Filing, the CAISO proposed that units selected in RUC would be permitted to submit new energy bids associated with their RUC capacity provided such bids do not exceed the level of the unit’s bid in the DA market. On the other hand, a unit that was not selected in the Day-Ahead IFM or committed in the RUC process would not be subject to such a re-bid limitation and would be permitted to submit an energy bid in the Hour-Ahead and Real-Time markets at any price up to the bid cap. In the June 17 Order, the Commission rejected the CAISO’s proposal and found that units whose bids are not accepted in the DA Integrated Forward Market (“IFM”), but which are selected for RUC, should be permitted to “re-price” their energy bids without limitation in the Hour-Ahead (“HA”) and Real-Time (“RT”) markets.

⁶ In its June 17 Order, the Commission made a number of significant changes to the ISO’s original RUC proposal included in the July 22, 2003 MD02 Filing. In particular, the Commission ruled that (1) the Availability Payment bid cap should be \$250 (compared to the \$100 bid cap proposed by the ISO in its MD02 Filing) and (2) the Availability Payment should not be rescinded if a RUC unit is dispatched for energy or Ancillary Services. The Commission also rejected the \$250 RUC total payment cap (Energy plus Availability) that the ISO proposed during the technical conference process. These changes to the RUC proposal have raised the concern that some form of system mitigation (in addition to the local bid mitigation proposed by the ISO) may be necessary to mitigate the exercise of market power for RUC Availability bids. The ISO will be evaluating this issue in the upcoming months and will consider proposing some form of system mitigation for RUC Availability bids when it makes its resource adequacy/market power mitigation filing in the fall. The Commission recognized in the June 17 Order that RUC-related bid mitigation issues should be addressed “under upcoming discussions on market power mitigation.” June 17 Order at P 67.

The CAISO submits that the Commission erred in granting units selected in the Day-Ahead RUC an unlimited re-bid opportunity. First, the pricing scheme the Commission adopted for RUC energy is inconsistent with the pricing scheme the Commission adopted for energy associated with selected Ancillary Services capacity bids. In its June 17 Order, the Commission stressed in several places that RUC is basically an Ancillary Service/operating reserve product. June 17 Order at PP 36, 65, 68. The Commission further stated that RUC compensation should be consistent with other operating reserve products. *Id.* at P 68. However, the RUC compensation approved by the Commission in the June 17 Order is not consistent with the compensation the Commission approved for other operating reserve products under MD02. In that regard, under MD02, suppliers' whose Ancillary Services bids have been accepted are not able to adjust their Day-Ahead energy bids in the Real-Time market. Rather, they are limited to the energy bid they submitted in the Day-Ahead market. The CAISO's July 22, 2003 Amended Comprehensive Market Design Proposal (P 118-119) described the need for and the specifics of these "re-bidding activity rules":

Bid prices that are accepted in one market time frame are contractual commitments. Therefore accepted incremental bid prices associated with RUC and A/S capacity cannot be increased, and decremental bid prices associated with scheduled energy cannot be decreased in a subsequent market time frame. This applies to final Day Ahead or Hour Ahead energy schedules, A/S capacity awards and the energy bids associated with that capacity, and the energy bids associated with RUC commitment. The ISO will, however, allow the incremental energy bid prices associated with unloaded A/S or RUC capacity to be lowered in a subsequent market if the supplier wishes to increase the likelihood of dispatch, and will allow

decremental bid prices associated with scheduled energy to be increased in a subsequent market.

Energy or capacity that is offered in one market time frame but not accepted by a buyer ... is no longer a binding commitment on the part of the seller and may be offered in a subsequent market time frame at a higher price, or not offered at all in the ISO's markets (subject, of course, to any applicable Must Offer obligation).

In the October 28 Order, the Commission approved the CAISO's bidding rules for sequential markets. October 28 Order at P 137.

It is axiomatic that an agency must conform to its prior practice, policy and decisions or explain the reasons for its departure. See *United Municipal Distributors Group v. FERC*, 732 F.2d 202, 210 (D.C. Cir. 1984); *Greater Boston Television Corporation v. FCC*, 444 F.2d 841, 852 (D.C. Cir.), *cert. denied*, 403 U.S. (1971). The Commission has failed to conform to this mandate. Indeed, the Commission has failed to follow its own conclusions and rationale in the June 17 Order and has approved a RUC compensation scheme that is different than the compensation scheme it approved for operating reserves. Because the Commission has concluded that RUC compensation should be the same as compensation for operating reserves, it cannot provide an unlimited re-bid opportunity for RUC units.

Second, the Commission has provided the same re-bid opportunity for RUC units that is being accorded to units that are not selected in the Day-Ahead IFM or in RUC. However, unlike RUC units, the latter group of units are not receiving an Availability Payment. Allowing RUC units the same re-bid

opportunity as units that are not receiving an Availability Payment is unduly discriminatory and preferential.

Third, given that suppliers in RUC are being guaranteed a non-rescindable Availability Payment, it is wholly inappropriate that they should be permitted to increase their previously submitted energy bids. Stated differently, if load is making a significant Availability Payment, load should receive some degree of certainty in connection with such payment. The situation is analogous to paying points to lock in an interest rate on a loan. It is wholly irrational that a person would pay significant upfront points and then allow the lender to set the interest rate at any rate the lender deems to be appropriate at the time of closing.⁷ Yet, that is essentially what is happening here. Indeed, the Commission states that RUC is essentially a call option on capacity. June 17 Order at P 80. However, a call option is characterized by a strike price, specified at the time the option is sold, at which the option can be exercised by the buyer.⁸ In the present context, the energy bid curve represents the strike price at which energy from the procured capacity can be dispatched. In contrast, under the bidding provisions approved by the Commission there is no strike price specified, and the seller of the option is permitted to bid any price it desires after the buyer has purchased the option. This is inconsistent with the concept of a call option.

The CAISO submits that it is wholly unreasonable to require Load to make an Availability Payment of up to \$250 to a RUC supplier, yet permit the supplier

⁷ Given that RUC capacity has a high probability of being dispatched in Real-Time, for energy, if suppliers were permitted to raise their bids once they were selected in RUC, they would have no incentive to bid competitively to increase their likelihood of being dispatched.

⁸ See, e.g., Peter Ritchken, "Options Theory, Strategy and Applications," Scott, Foresman and Company, 1987, p. 13.

to re-price its Energy bid at any level up to the Damage Control Bid Cap. Given the level of the Availability Payment, it is appropriate that there be limitations on suppliers' re-bid opportunities. An unlimited re-bid opportunity is especially inappropriate in the context of RUC. As the CAISO indicated on numerous occasions during the technical conference process, RUC capacity has a high probability of being dispatched by the CAISO because it reflects capacity that the CAISO finds necessary to meet CAISO-forecasted load. Under these circumstances, if suppliers were permitted to raise their bids once they were selected in RUC, they would have no incentive to bid competitively to increase their likelihood of being dispatched because the expectation is that their energy is needed to serve load. Once a resource is selected in RUC, guaranteed recovery of its start-up and minimum load costs, and has secured the Availability Payment, the profit maximizing strategy for the supplier in a competitive real-time energy market would be to bid variable cost for energy (out of the RUC capacity). Bidding significantly above variable cost would risk loss of market share under competitive conditions. Such a strategy could be profitable, however, if the seller is in a position to exercise market power. For example, if the seller has a dominant or pivotal portfolio and its objective is to maximize its net portfolio profit, it may very well have an incentive to bid above its marginal costs. Because there is a high probability that RUC capacity will be dispatched, a resource committed under the RUC process is essentially assured of being "pivotal" in the RT market. As such, allowing the RUC seller to raise its energy bid price after some capacity

has dropped out of the competitive arena (*i.e.*, was not selected in RUC) is tantamount to allowing the exercise of economic withholding.

Fourth, the CAISO's proposed approach is consistent with the unit commitment procedures which the Commission approved for PJM, whereas the approach approved by the Commission for the CAISO is inconsistent with such approach. In that regard, PJM's approach to unit commitment mitigates against suppliers ratcheting up their bids if system conditions turn out to be tighter than expected. See PJM Manual 11 (Scheduling Operations), Section 2. In PJM, market participants can submit revised offers during the re-bid period after the DA market (from 4 to 6 p.m.) for the resources that were not committed in the Day-Ahead market. Thus, PJM market participants have an opportunity to modify their energy bids for uncommitted units after the Day-Ahead market but before RUC. However, once selected in RUC (*i.e.*, committed after 6 p.m.), consistent with the CAISO's proposal, units cannot change their energy bids.⁹

The Commission rationalizes its decision on the grounds that suppliers may face increased gas costs between the Day-Ahead and Real-Time, and they need the ability to adjust their energy bids to account for this risk. The Commission made its determination based on the claims of Williams/Dynegy that a unit committed in the Day-Ahead RUC will not purchase fuel because it does

⁹ Similarly, under the CAISO's MD02 proposal, uncommitted units would be given an unlimited re-bid opportunity, but units selected in RUC would not be given such an opportunity. Although the CAISO would not allow a re-bid between Day-Ahead IFM and RUC, there are two other significant advantages for CAISO market participants that are not available in PJM. First, the CAISO allows a different bid for each hour, whereas PJM has the same bid for all hours. Second, PJM does not pay suppliers a separate non-rescindable Availability Payment in its unit commitment process.

not know if it will receive a dispatch for energy. June 17 Order at P 77. The Commission's rationalization is not credible for several reasons.

The fact that RUC capacity has high probability of being dispatched in Real Time undermines the claim of Williams/Dynegy that a unit committed in the Day-Ahead RUC will not purchase fuel because it does not know if it will receive a dispatch for energy. Assuming *arguendo* that a supplier has not lined-up its fuel supplies in the Day-Ahead time frame, the supplier will need to line up its fuel supplies once it is selected in the RUC process because it will need fuel for Start Up and Minimum Load. It does not make sense that a unit would procure fuel for Start Up and Minimum Load, but not make arrangements for the fuel needed to generate incremental electricity at the same time. Likewise, because units selected in RUC have a high probability of being dispatched for energy and are required to bid into the Hour Ahead and Real Time markets for dispatch against load appearing in those markets, it is difficult to believe that suppliers would wait until the last minute to procure their fuel supplies.¹⁰

Further, any fuel-price risk RUC units face due to the uncertainty of being dispatched in Real Time is the same generic risk that Ancillary Services providers face. However, for the reasons noted above, any uncertainty regarding Real Time dispatch is less of an issue for RUC capacity than it is for Ancillary Services capacity. Yet, the Commission has approved the CAISO's proposed re-bidding activity rules for Ancillary Services capacity under which Ancillary

¹⁰ Given that the selection of RUC units occurs mere minutes after the close of the Day-Ahead market, it is incredulous to think that energy bids that the supplier submitted in the Day-Ahead market and was willing to accept would not be valid in RUC.

Services providers do not get an opportunity to adjust their energy bids in the Real-Time market. Similarly, RUC units should not be given a re-bid opportunity.

Finally, suppliers can effectively hedge against any gas price fluctuation risk. Indeed, all prudent sellers have such hedging mechanisms in place. Because any potential gas price risk that suppliers face is minimal, the benefit they will receive from an unlimited re-bid opportunity is likewise minimal. On the other hand, suppliers in RUC are receiving a significant Availability Payment, and an unlimited re-bid opportunity close to Real-Time provides them with a potential windfall and an opportunity to exercise market power at the last minute. Stated differently, any gas price risk that suppliers face pales in comparison to the RUC costs that load is paying to suppliers and the potential increased costs and exposure to market power that load faces due to an unlimited re-bid opportunity. Under these circumstances, an unlimited re-bid opportunity is both unnecessary and unreasonable.

B. The CRR Allocation Filing Requirements Imposed By The Commission Are Problematic And Should Be Rescinded

As indicated above, the October 28 Order required the CAISO to file (1) detailed information on the proposed first year CRR allocation when the CAISO files CRR Tariff language and (2) CRR allocation information at least three months prior to filing CRR Tariff language. The CAISO submits that filing the requisite CRR allocation information within the timeframe adopted by the Commission is problematic for the reasons set forth below. Accordingly, the Commission should rescind the requirement that the CAISO file such CRR allocation information within the timeframe specified in the October 28 Order and

request that the CAISO provide such information in a timeframe consistent with the discussion below.

The CAISO is currently in the beginning stages of its CRR Study Number 2. This important study, which was planned jointly with the ISO's Market Participants, has two main objectives. The first objective is to estimate the extent to which the CRR requests submitted by CRR stakeholders can be fully allocated, given the changes to the market design elements proposed in the July 22, 2003 Amended Comprehensive Market Design Proposal. The second objective is to determine the extent to which the allocated CRRs can hedge congestion costs in the Day-Ahead Market. It is anticipated that this comprehensive Study will not be completed until April 2005. Sometime after the completion of CRR Study Number 2, the CAISO plans to work closely with its Market Participants to design any further studies or study scenarios needed to address unresolved questions and refine the CRR allocation rules and methodology. The CAISO expects to complete these remaining studies in early 2006. The CAISO then plans to conduct a mock CRR allocation/auction process that will provide a meaningful estimate of the expected first year CRR allocations, given certain reasonable assumptions about expected conditions in 2007. By summer 2006, the results of this mock allocation/auction should be ready for submission to the Commission for informational purposes. This will represent the CAISO's best estimate of the feasible sets of CRRs that can be allocated to

eligible parties and the effectiveness of these CRRs in hedging those parties' congestion cost exposure.¹¹

The CAISO does not expect to determine actual long-term (*i.e.*, annual) CRR allocations for the initial year of MD02 operation until approximately three or four months prior to implementation of MD02. The reason for this is because, under the proposed methodology for allocating long-term CRRs, the maximum quantities of CRRs that may be requested by market participants are based upon the most recent 12 months of historical load data. The CAISO expects that market participants will want this data to reflect a time period as close as possible to the actual start-up of operation under LMP in order to minimize the range of forecast uncertainty. Similarly, the short-term (*i.e.*, monthly) CRR allocations are based upon an hourly forecast of load for the following month. As a result of this allocation methodology, the actual long-term CRR allocations are not expected to be known until fall of 2006, while the first month's short-term CRR allocations will be known approximately a month in advance of MD02 start-up. The CAISO submits that determination of actual CRR allocations should come as close as practically possible to the actual time period to which the CRRs apply, *i.e.*, to the start-up of the LMP market. Therefore, it would not make sense for the CAISO to submit actual CRR allocations to the Commission at the same time that the CAISO submits Tariff language to implement MD02.

For the foregoing reasons, the Commission should direct the ISO to submit preliminary and final first year CRR allocations within a timeframe that is

¹¹ The results of CRR Study 2 and any further studies or study scenarios would, of course, be public documents available for Market Participants and the Commission staff to review as this effort proceeds.

consistent with the discussion herein. In particular, the CAISO would be in a position to submit preliminary estimated CRR allocations based on a mock CRR allocation/auction process in the summer of 2006, and actual CRR allocations roughly 60 days before start-up of the new market.

C. The Commission Should Clarify That It Directed The CAISO To Implement Explicit Virtual Bidding Not Implicit Virtual Bidding

In the June 17 Order, the Commission directed the CAISO, as part of the Tariff filing directed in the Order, to either (1) submit tariff sheets implementing virtual bidding simultaneously with the implementation of the Day-Ahead market or (2) provide a full explanation of why this should not be done and indicating the date on which virtual bidding would be implemented. June 17 Order at P 159. The Commission noted that the Midwest Independent System Operator proposes to implement virtual bidding simultaneously with the implementation of its Day-Ahead market and that PJM, ISO New England and the New York ISO all allow virtual bidding in their markets. *Id.*

The CAISO requests that the Commission clarify that it directed the CAISO to implement “explicit” virtual bidding not “implicit” virtual bidding. The CAISO submits that any virtual bidding mechanism must be explicit by requiring that virtual or purely financial bids be flagged. Such an approach is commonly referred to as “explicit” virtual bidding to distinguish it from “implicit” virtual bidding, whereby market participants submit forward schedules and bids that they have no intention of fulfilling in Real-Time and, which from the CAISO’s perspective, are not identifiable as such. The CAISO notes that PJM, MISO, ISO New England the New York ISO all require that bidders explicitly identify virtual

bids. The same requirement should apply in California in the event virtual bidding is implemented at some time in the future. Presumably the June 17 Order directed the CAISO to implement explicit virtual bidding similar to that employed by the other independent system operators.

Explicit virtual bidding will allow the CAISO's grid operators to distinguish real (*i.e.*, physical) bids from bids that are purely financial and will be liquidated in Hour-Ahead or in Real-Time. When virtual bids are explicitly labeled as such, the CAISO can make unit commitment and transmission allocation decisions and take other actions necessary for reliable grid operations based on the knowledge of what is real and what is virtual. In other words, if grid operators can distinguish which supplies will be available in Real-Time and which supplies are not intended to be available, they can plan accordingly. Failure to identify virtual bids clearly could cause CAISO operators to scramble unnecessarily in Real-Time when supplies that were bid into and cleared in the Day-Ahead market – and that the CAISO counted on being there – fail to show up. If virtual bidding is to be permitted, it must be permitted only under a set of rules and procedures that will prevent any adverse impacts on reliable grid operation.

In no event should the Commission permit “implicit virtual bidding” – practices in which virtual bids are not explicitly labeled as such. As the Commission is well aware, “implicit” virtual bidding has occurred in the CAISO's markets and has created significant reliability problems for the CAISO's grid operators for several years. If virtual bidding is permitted, there is no legitimate reason why a bidder should object to flagging a bid as virtual unless the bidder is

seeking to game the system by misrepresenting its intent. In its Tariff Amendment No. 55, the CAISO is submitting a proposed Tariff provision prohibiting the submission of false information (thereby effectively proscribing virtual bidding) as part of its Oversight and Investigation program. The Commission generally approved this aspect of Tariff Amendment No. 55. *California Independent System Operator Corporation*, 106 FERC ¶ 61,179 (2004). Implicit virtual bidding runs afoul of the requirement in the Enforcement Protocol approved by the Commission that market participants provide factually accurate information to the CAISO or be subject to penalty.

III. CONCLUSION

WHEREFORE, for the foregoing reasons, the CAISO respectfully requests that the Commission grant the instant request for rehearing and vacate the following rulings made in its July 17 and October 28 Orders consistent with the discussion herein: (1) generators should be permitted to adjust their Day-Ahead IFM bids if they are not taken in the market, but subsequently are selected for Day-Ahead RUC; and (2) the CAISO must (a) file detailed information on the proposed first year CRR allocation when the CAISO files CRR Tariff language and (b) file CRR allocation information at least three months prior to filing the CRR Tariff Language. The CAISO also requests that the Commission clarify that it directed the CAISO to implement “explicit” virtual bidding not “implicit” virtual bidding.

Respectfully Submitted,

/s Anthony J. Ivancovich

Charles F. Robinson
General Counsel
Anthony J. Ivancovich
Senior Regulatory Counsel
California Independent System
Operator Corporation
151 Blue Ravine Road
Folsom, CA 95630
(916) 608-7135

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The Honorable Magalie R. Salas
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

**Re: California Independent System Operator Corporation
Docket No. ER02-1656-000 and EL01-68-017**

Dear Secretary Salas:

Enclosed for electronic filing, please find a Request For Rehearing and Clarification of The California Independent System Operator Corporation in the above-referenced docket.

Thank you for your assistance in this matter.

Respectfully submitted,

/s Anthony J. Ivancovich

Anthony J. Ivancovich

Counsel for the California Independent
System Operator Corporation

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in the above-captioned dockets.

Dated at Folsom, California, on this 16th day of July, 2004.

/s Anthony J. Ivancovich
Anthony J. Ivancovich