

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

Williams Energy Services Company) Docket No. ER98- 3106- 000

**REHEARING REQUEST OF
THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION**

Pursuant to Rule 713 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.713, the California Independent System Operator Corporation ("ISO") requests rehearing of the Commission's July 24, 1998, Order in the above-captioned proceeding.

Background

On May 26, 1998, Williams Energy Service Company, Inc. ("Williams") filed a request that the Commission grant it authority to charge market-based rates for four services: Regulation, Spinning Reserve, Non-Spinning Reserve, and Replacement Reserve. The ISO was granted leave to intervene. The ISO, while expressing support for market-based rates when the seller has demonstrated its inability to exercise market power, argued that, absent time-differentiated studies, Williams could not make that demonstration. Accordingly, the ISO asked the Commission to defer the grant of authority for market-based rates until such studies had been submitted or, alternatively, to authorize the ISO to place a cap on Ancillary Services bids.

In its July 24, 1998, Order, the Commission granted Williams authority to charge market-based rates for Regulation, Spinning Reserve, Non-Spinning Reserve, and Replacement Reserve in the ISO control area. 84 FERC ¶ 61,072, slip op. at 9-10. The Commission noted that it had, in the July 17, 1998, Order in *AES Redondo Beach, et al.*, 84 FERC ¶ 61.046, slip op. at 1-2, 7 (1998), granted the ISO authority to place a cap on bids for these services. 84 FERC ¶ 61,072,

slip. op. at 9.

Discussion

The market-based rate authority sought by Williams concerns the three AES units that were the subject of the Commission's June 30 Order in *AES Redondo Beach, LLC*, Docket No. ER98-2843-000, *AES Huntington Beach, LLC*, Docket No. ER98-2844-000, and *AES Alamitos, LLC*, Docket No. ER98-2883-000. The ISO has a pending Motion for Stay and Request for Rehearing and Clarification of the June 30 Order (the stay having been denied, and the ISO having been granted authority to impose a cap on bids, as described above). A copy of the motion and rehearing request is attached.

As noted above, the ISO, in its Protest in this proceeding, asked the Commission to defer the grant of authority for market-based rates until time-differentiated market power studies had been submitted or, alternatively, to authorize the ISO to place a cap on Ancillary Services bids. Although the Commission properly notes that its July 17 Order granted the ISO interim authority to impose a cap on Ancillary Services bids, including Replacement Reserves, the ISO remains concerned that such authority is only temporary. Should the Commission terminate that interim authority, the market conditions described in the ISO's attached rehearing request of the June 30 Order will once again prevail.

The ISO therefore urges the Commission to reconsider its decision to grant market-based rate authority to Williams for the sale of Ancillary Services, including Replacement Reserves, without either requiring a time-differentiated market power study or granting the ISO continued authority to cap bids.

Conclusion

WHEREFORE, the ISO respectfully requests that the Commission condition

Williams' requested market-based rate authority for Regulation, Spinning Reserve, Non-Spinning Reserve and Replacement Reserve services on either (1) the submittal of a time-differentiated market power study demonstrating Williams' lack of market power for such services, or (2) the continued authority of the ISO to impose a cap on bids for these services.

Respectfully submitted,

N. Beth Emery
Vice President and General Counsel
Roger E. Smith, Regulatory Counsel
The California Independent
System Operator Corporation
151 Blue Ravine Road
Folsom, CA 95630
Tel: 916-351-2334
Fax: 916-351-2350

Kenneth G. Jaffe
Swidler Berlin Shereff Friedman, LLP
3000 K St., NW #300
Washington, DC 20007
Tel: 202-424-7588
Fax: 202-424-7645

Edward Berlin
Michael E. Ward

Date: August 24, 1998

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the forgoing document upon each person designated on the official service list compiled by the Secretary in this Docket No. ER98-3106-000 in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure, 18 C.F.R. §385.2010 (1997).

Dated at Washington, D.C. on this 24th day of August, 1998.

Michael E. Ward