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Comments of Citigroup Energy Inc (CEI) on CAISO's Proposed 15-Minute Scheduling and Settlement

Introduction

CEI has followed CAISO's 15-minute scheduling proposal closely and has several concerns about the approach that has been suggested. Although the proposal has some merit because it allows for more flexibility for some market participants, it has the potential to cause more harm than good. In particular, the impact on marketers on the interties will potentially be unnecessarily harmful. For these reasons, we recommend that CAISO delay implementation of its 15-minute settlement until such time as other neighboring balancing authorities implement similar approaches and merely meet the letter of the requirements from FERC's Order 764.

Potential Issues With CAISO's Proposal

CAISO's proposal is not yet clear in its implementation. However, it appears that the approach will create unnecessary price risk on intertie transactions between CAISO and areas that do not have similar settlement arrangements. Importers and exporters into CAISO will have price and volume risk in CAISO that cannot be adequately hedged, even with the proposed transmission transactions.

Price and volume risk seems to be created by this proposal. In particular, an hourly schedule in another balancing authority cannot be offset in California. The 15-minute settlement proposed by CAISO will merely add unnecessary risk without any clear benefit.

The proposed transmission hedging mechanism is inadequate. By only refunding congestion costs, and not settling like a CRR, it will create the potential for arbitrages that may not have a clear economic benefit. The proposed settlement will lead to uplift, again without any clear benefit.

Finally, The two-minute window to update schedules will inevitably create unforced errors without any clearly demonstrated benefit. It is not an appropriate mechanism to have reliably functioning commercial operations. CEI urges CAISO to have a proposal that does not rely on a mechanism such as this one.

Questions about the CAISO Proposal

How will the CAISO proposal interact with USF mitigation? If USF continues to be evaluated on an hourly basis, it could lead to conflicts with CAISO 15-minute scheduling and settlement. How does CAISO propose to resolve these conflicts?

Alternative Approaches

CAISO could ensure that resources (including variable energy resources) have the opportunity to update schedules on a fifteen-minute basis, and end its compliance with FERC Order 764 there. Then, it can work on a longer time frame to develop 15-minute settlement on a separate path. There is no obligation for CAISO to develop a proposal like this one concurrently with FERC Order 764 compliance. CEI urges CAISO to take this alternate path