Vitol Comments on the CAISO Proposal in Response to FERC Order 809

Alignment of CAISO DA Scheduling Process (Deadlines) with a new Timely Gas Nomination Cycle

How much gas do you procure through the Timely market? How would that change with the new nomination deadline? Does the deadline impact operations?

Vitol does not own or operate gas generating facilities within the CAISO footprint. However, Vitol is a market participant within CAISO and WECC, transacting in both physical and financial power contracts. It's clear that changes in the day-ahead market timeline for the CAISO would have some level of impact within both the CAISO and other traded locations within WECC.

Yes. The change in the deadline can and will impact operations related to both gas and power. Below we will explain both the pros and cons associated with gas trading and scheduling, along with power operations and risk management.

Are the three alternatives appropriate and viable for market participants? Are there more alternatives?

The three alternatives are viable if a solution is deemed necessary.

Alternative 1: *Move the timing of the ISO's day-ahead market timelines to earlier in the day (e.g. 7 a.m. – 10 a.m. PT) so that the generators know their electric dispatch obligations before the day-ahead timely nomination cycle for gas scheduling*.

Assuming that liquidity of gas trading will be minimal after 10am PT awards, the benefits associated with moving the timeline, as suggested in Alt #1, are an effort to reduce scheduling/pipeline risks and not trading or commitment/quantity risks.

<u>Risks:</u>

Commitment/Quantity Risk – Procuring gas when one is unsure of its need – This does not change with Alt 1, if market participants chose to procure gas and economically bid their assets.

Self-Scheduling Risk – Procuring gas and offering at the clearing price – This does not change with Alt 1, if market participants chose to procure gas and self-schedule their assets.

Liquidity Risk – Whereas it's understood that physical gas can be transacted prior to the 7am deadline, I would challenge the ISO to understand if this is the case in some, most or all circumstances. Will there be sufficient liquidity available prior to the day-ahead CAISO deadline (including in both normal operating days and stressful operating days)? If Alt#1 was considered, we believe that a thorough review of daily gas trading behavior would be a necessity.

Time - If liquidity is not significantly impacted are there other factors that need to be taken into consideration when managing an asset portfolio? We are uncertain and therefore concerned that an earlier day-ahead deadline might impact the time in which market participants analyze the markets, system parameters, forecasts, etc., in an effort to effectively manage their portfolio. We are also uncertain if moving the timeline forward would disconnect the bilateral markets from the CAISO day-ahead market, therefore impacting risk management and certain market efficiencies.

Price Risk - If the notion is that gas trading would wait and liquidity would be available after the market awards (10 am PT), we do not believe this would be the case. Market participants needing to procure gas after an award could be caught short within an illiquid market. We are unsure how the CAISO would view situations where market participants decided not to procure gas in liquid trading hours then subsequently were unable to procure gas after 10am, after receiving an award. This scenario could add significant risk to a market participant associated with CAISO protocols as well as price risk.

Trading gas prior to the deadline provides price certainty with quantity risk, while procuring gas after the day-ahead market awards would provide quantity certainty with price risk.

Benefits:

Timely Gas Nominations - The main benefit associated with moving the day-ahead market to 7am PT is that gas can be scheduled within the timely cycle. We would suggest that the CAISO look to understand the impacts of non-timely gas nominations with respect to generation facilities within its footprint. We are uncertain of the magnitude of financial impacts on both gas and power, if and when non-timely gas is scheduled and subsequently cut or reduced. We look to the CAISO and asset managers to articulate this risk and cost.

Summary - Alt#1 essentially allows market participants to move risk between price, quantity or self-schedule with limiting risks associated with timely gas nominations. However, Alt#1 could have other impacts associated with bilateral markets, forecasting/analysis, and alignment of markets (intertie scheduling, information release, etc.).

Alterative 2: *Maintain the ISO's current timing for the day-ahead scheduling process on the grounds that obtaining gas scheduling on the pipelines serving California generators is not a problem and it is sufficient to know electric dispatch obligations at the time of the day-ahead evening nomination cycle.*

Risks:

Commitment/Quantity Risk – Procuring gas when one is unsure of its need – This does not change with Alt 2, if market participants chose to procure gas and economically bid their assets.

Self-Scheduling Risk – Procuring gas and offering at the clearing price – This does not change with Alt 2, if market participants chose to procure gas and self-schedule their assets.

Timely Gas Nominations – As mentioned above, we are unable to quantify this risk and look toward the CAISO and asset managers to articulate.

Benefits:

Liquidity Risk – There should not be liquidity risk associated with this Alt.

Summary – Price certainty with quantity, self-scheduling or gas nomination risk.

Alternative 3: *Move the timing of the ISO's day ahead market timelines to later in the day (e.g. noon to 3:00 p.m. PT), so that gas-fried resources learn their day-ahead dispatch obligations after the timely nomination and use the evening nomination cycle at 4:00 p.m. PT to address any fuel scheduling imbalances.*

We currently do not see any benefits associated with this alternative other than general market benefits of facilitating the day-ahead market closer to the real-time market.

What are the benefits and concerns for each alternative? Please be explicit and describe both operational and financial impacts.

Please see above.

Is ISO differently situated than other organized markets? How so?

Yes. It's not clear that there are current issues with the existing timeline for the CAISO and gas procurement. It's also unclear at this point any alternative is a mere shift of risks vs. a market benefit. With this, we do suggest that the eastern markets have a misalignment that needs to be addressed and we are currently working within those stakeholder processes to provide our input. For instance within the eastern markets and broadly stated, the eastern markets are currently replacing coal with gas on an already (in strategic areas) constrained gas system. Within the western markets the west is slowly replacing gas with renewables which would actually relieve capacity. The two situations are very different in nature.

Consideration:

Beyond gas procurement, scheduling and power generation we do want to consider other impacts on the market. We believe and the market generally agrees, that time is a valuable commodity when managing risk. Whereas we cannot quantify the impacts, we do suggest that moving the timeline earlier could impact market assessments (forecasting, etc.) by both the CAISO and market participants. We would also like to understand any unintended consequences that moving the market timeline might have on bilateral markets, intertie transactions, etc. We would urge the CAISO to heavily consider what a three hour adjustment in a scheduling timeline could mean to various timely items produced by the CAISO, market participants, external BAs, etc.