Comments of Vitol Inc. on Congestion Revenue Rights Clawback Rule Modification - Straw Proposal

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Vitol understands that written comments are the preferred method of communication in an effort to document the opinions associated an individual organization, related to various stages of a stakeholder process. Vitol has strong concerns and has previously stated our opinions surrounding changes leading to unintended consequences and/or counter-intuitive results. In this case, our opinions are worth repeating in writing, as our strong belief that this proposed design undermines having a robust market; we urge the CASIO to utilize our comments/suggestions in designing/improving this market construct.

Vitol again appreciates the opportunity to comment on the congestion revenue rights clawback rule modification and encourages the CAISO to directly work with Vitol, other market participants and trade groups to evaluate, understand and optimally come up with solutions that encourage proper market behavior and do not undermine the purposed of an LMP market.

Below, Vitol would like to point out several concerns that have been voiced in previous discussions, while introducing new areas of concern where the CAISO is unnecessarily restricting market participants, but clearly looking to facilitate efficiencies through other means like EIM.

<u>**One-sided proposal**</u>

It appears that the CAISO is taking a very one-sided approach to apparently help solve what has been deemed a liquidity issue. The CAISO proposes that if a market participant were to buy or sell in real-time, a previously purchased or sold schedule in the day-ahead, that when it appears to the "advantageous" for the CAISO the transactions will not be considered "implicit virtual bids," but when it appears to be "disadvantageous" to the CAISO, the CAISO would like to label them "implicit virtual bids" and subsequently apply the clawback rules with respect to CRRs.

The ISO proposes to modify the CRR clawback rule as follow:

- If the import/export passes the HASP reversal rule test (e-tag support day-ahead schedule prior to FMM), then
    - If import bid <= day-ahead price, then the import is not considered a virtual award
    - If export bid >= day-ahead price, then the export is not considered a virtual award

If an import/export bid/self-schedule in real-time market is less than the day-ahead schedule, then the difference shall be still subject to HASP reversal rule.

<u>**Issues related to this proposal:**</u>

1) The CAISO is taking a very one-sided position that disregards actual fundamentals and fundamental changes that can and will occur between the day-ahead and real-time (or FMM) markets.
    a. CAISO is segregating market participant's participation – Market participants that do not have a day-ahead schedule can react (behavior) based on price, whereas market participants with a day-ahead schedule have the potential to be labeled an "implicit virtual bidder," and subsequently have clawback applied.

    b. EIM power flows could conflict with FMM schedules due to the fact that the CAISO is placing this strangle around flexible market participants in the FMM. The removal of market participants that have flexibility only hinders efficiency and proper market behavior. Whereas in EIM there is a management of final flows for efficiency that is managed by the CAISO and external control areas; this rule stifles market participants from reacting to real market prices in CAISO and supply and demand needs external of the CAISO.
    c. Simply put - CAISO is disregarding the principles of an LMP market – Price should determine behavior and therefore internal and external market fundamentals. To name a few:
        i. Supply/demand
        ii. Load forecasting error
        iii. Transmission/generation outages
        iv. Renewable generation forecasting error
        v. External ISO congestion management
2) CAISO is disregarding opportunity costs and Carbon costs associated with imports of energy along with other generator specific factors.
    a. Change in fuel cost supply
    b. Generator specific outage
3) CAISO's proposal to place the labeling of "implicit virtual bidding," as outlined above, is flawed in every capacity when considering the underlying concepts of an LMP market.
    a. What does a real-time buy back of power have anything to do with the day-ahead final clearing price? How could a day-ahead price be a "trigger" as it relates to a real-time schedule and real-time system dynamics? As we have seen with EIM efficiency we all understand that there are internal and external dynamics on the system that change between the day-ahead and real-time. Is it ok if the CAISO uses EIM to manage those changes and react to efficiencies, but not market participants that have a completely irrelevant day-ahead schedule?
    b. CAISO is willing to imply intent and tie what could be two completely irrelevant actions together in an effort to solve for what? As mentioned above, this proposal has much greater unintended consequences than positive impacts with respect to the market.
        i. The DMM under the tariff has the right to question the intent of transactions. If a pattern of negative behavior that cannot be traced back to either 1) a hedge related to managing risk or 2) an independent justifiable transaction (standalone), then the DMM should inquire.

<u>Trading hubs and load aggregation points – Clawback</u>

We are unsure what the CAISO is solving for. Are there a few participants that improperly using virtuals to impact major APNodes and LAPs?

We are unsure if we are solving for a very small problem, or an anomaly that could be resolved with one-on-one conversations with a market participant. We would like more information on this perceived "issue" to determine if it's something we really need to adjust the rules for. It's our impression that other ISOs like PJM and MISO do not apply clawback to the major hubs and laps. We would like for the CAISO to clearly outline why the CAISO is very different from these other ISOs and why there cannot be some consistency amongst the ISOs.

<u>Summary</u>

The CAISO has self-imposed these restrictions and now looks to alleviate some of the “restraints' associated with the consequences of their actions. It appears that a collection of restraints which would/could include FMM (removal of the HASP market), removal of BCR for imports, not applying BCR for exports, absorbent export costs, exports paying themselves in negative pricing situations and clawback have possibly combined with the changing needs to manage liquidity and operational capability. These concerns were voiced time and time again in previous stakeholder processes and continue to be voiced by market participants as, unnecessary restraints that hinder liquidity and proper market functionality. The CAISO should look to remove “clawback” completely at the interties and not haphazardly mislabel market participants that are willing to react based on internal and external fundamentals.   The CAISO should also look to evaluate the other unnecessary restraints they have placed on the market that have negatively impacted liquidity, contradicted LMP and stifled operator flexibility.