

Vitol Inc.'s ("Vitol") Comments on FERC Order 764 Compliance – 15 Minute Scheduling and Settlement – Straw Proposal ("the Proposal")

As a new market participant within the CAISO, Vitol appreciates this opportunity to comment on the CAISO's 764 stakeholder process addressing 15 minute scheduling. Vitol applauds the CAISO in its efforts to provide necessary changes in its market structure to facilitate FERC 764 and looks forward to continued efforts on such matters.

Vitol's comments below only address the intertie (import & export) transactions related to the CAISO and the WECC region.

As an alternative to the Straw Proposal, Vitol would request the CAISO consider the following proposal:

- The CAISO would continue with both its DAM and HASP markets with enhancements that allow scheduling coordinators, who can be flexible on a 15 minute basis, the ability to "flag" their schedules for 15 minute intertie re-dispatch. It is a direct approach that provides a solution to the issues that Vitol is raising in this comment letter.

Addressing the CAISO's current proposal:

The CAISO's Proposal is not clearly defined. Conceptually, it introduces higher level ideas surrounding market enhancements and needed changes. However, among other things, it does not completely consider the vast detailed issues surrounding WECC coordination, tagging, incremental reliability, and liquidity concerns that are likely to result if implemented in its current form.

In addition to the general concerns raised above, Vitol would like the CAISO to answer and/or consider the following points with respect to the CAISO and WECC:

CAISO

- The CAISO should perform a cost benefit analysis, as well as a market analysis, associated with the implementation of a mandatory 15 minute market to replace the present liquid HASP process.
- The CAISO should clearly diagram all impacted transaction types and possible settlement scenarios under all normal and stressed market conditions.
- The CAISO should clearly define the Hour-ahead process and outline all financial and physical obligations related to a bid at T75.

WECC

The CAISO's timeline, as presented in the Proposal, is to post their final draft proposal on March 26, 2013, aggressively ahead of WECC's timeline. The WECC has a task force report due out by March 31, 2013. The CAISO should consider a more collaborative approach and allow for WECC's findings and recommendations contained in the task force report to be evaluated prior to venturing in uncharted territory.

WECC put together a task force in September 2012 consisting of stakeholders in WECC. The task force is in the initial stage of evaluating FERC 764 and has been charged with identifying and analyzing the impacts of 15 minute scheduling, how these identified impacts affect the reliability and commercial activities of WECC, and to propose recommendations to improve outcomes. This task force is to report its findings and any recommendations to the Joint Guidance Committee by March 31st 2013.

WECC Taskforce & Discussions:

1. Checkout process – Currently BAs are checking out prior to the hour, every 30 minutes, and/or when a change in schedule occurs. The Proposal inadvertently suggests all interconnected BAs would checkout energy schedules on a 15 minute basis.
 - With the hour-ahead process being a “transmission procurement” process and not a firm energy award, how does the CAISO suggest “checking out” full hourly schedules of interchange if energy is not awarded in the hour-ahead process?
 - Does the CAISO suggest that the WECC “checkout” process move to 15 minute increments only, and the removal of an hour-ahead checkout process?
2. Imbalance energy calculation – BAs are calculating imbalance energy on an hourly and 30 minute basis. It is clear that not all BAs within WECC will move to a 15 minute imbalance market.
 - How will the CAISO address this with its connecting BAs?
 - How does the CAISO suggest addressing any rounding issues pertaining to 15 minute scheduling?
3. USF process – Currently the USF process is run on an hour-ahead basis and mandates reductions on any impacting tag. This would include established tags, tags with an increase in mw volumes and incremental tags of energy. With the Proposal outlined, the CAISO will procure energy on a 15 minute basis, meaning they would need the flexibility to adjust tags and allow market participants to submit incremental tags.
 - With the USF process not being a 15 minute evaluation, how does the CAISO envision the hourly USF process to work in harmony with the CAISO 15 minute procurement process?
4. Tagging – Currently it is unclear how the CAISO is defining a “transmission tag” for the purposes of the hour-ahead process. The CAISO should clearly define what a “transmission tag” is and determine if existing functionality is

usable as suggested. Tagging, tagging timelines, approvals and all aspects of submitting, evaluating and implementing a tag need to be thoroughly outlined and agreed upon at WECC and the CAISO prior to the Proposal being finalized.

Observations & Questions

With the guiding principles the CAISO describes its reliance on price signals to incent behavior.

- With the Straw Proposal and the encouragement of self-schedules to facilitate a “static-like” hourly schedule, will the CAISO analyze the potential for incremental non-market solutions and exceptional dispatch?
 - With the encouragement of self-scheduling as proposed, would the CAISO be advocating for schedules to be entered into the system uneconomically, or that are not economically rational?
- Will the CAISO analyze the potential unintended uplift charges associated with the lack of flexibility of self-schedules?

The CAISO states the desire to not “re-invent” and intends to leverage design and experience of other ISOs/RTOs.

- Has the CAISO researched any success or failures within other ISOs/RTOs surrounding 15 minute scheduling?
 - Has or will the CAISO research whether other ISOs/RTOs settle intertie products by using certain components of an LMP in one market run (i.e. congestion) and other components in a separate market run (i.e. energy & losses) to determine a single financial obligation?
 - Have other ISOs/RTOs considered and/or implemented a similar 15 minute market design based on a transmission bid at their interties?
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- With the existing Proposal, does the CAISO characterize the implementation of the new “product,” within the hour-ahead process, as a firm 15 minute call or put option based on a T75 minute transmission bid?
 - The CAISO’s Proposal explains that a T75 transmission bid, accepted or not accepted, will be analyzed in the 15 minute market for energy procurement. With the Proposal suggesting a potential settlement of the congestion component based on the hour-ahead process and the energy and losses component based on the 15 minute process, can bids submitted in the T75 timeframe be accepted in the 15 minute process, even though the result is uneconomical?
 - Will the CAISO address and outline changes in policy or settlement processes for the following (if necessary):
 - eTagging timeline & forfeiture rule
 - CRR forfeiture rule

- Declined dispatch – Is declined dispatch applicable if the hour-ahead process is truly a “transmission reservation?”

Vitol is an advocate for an effective implementation of solutions to satisfy FERC 764. We ask the CAISO to consider an option that would allow for both hour-ahead economic static schedules as well as 15 minute flexibility for market participants that are able and willing to provide such a service. The hour-ahead trading process has been in existence and liquid, within WECC and the CAISO (pre and post MRTU), for many, many years. We do understand that incremental flexibility, if implemented properly, would only enhance this existing liquidity and reliability however, we are concerned the Proposal will unintentionally, but effectively, remove a fluid and liquid product while replacing it with an untested product that has not been vetted with the necessary coordination of all WECC Members to determine if potential unintended consequences outweigh the foreseeable benefits.