

Comments of Vitol Inc. on Congestion Revenue Rights Clawback Rule Modification – Final Draft Proposal

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Vitol understands that written comments are the preferred method of communication in an effort to document the opinions associated with 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 is 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.

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

- For an import or export submitted and accepted in the day-ahead market:
 - If import bid in the FMM \leq day-ahead price, then the import is not considered a virtual award, if the import bid is $>$ the final day-ahead clearing price then the original day-ahead position is considered an “implicit virtual bid” and subject to CRR clawback if applicable.
 - If export bid in the FMM \geq day-ahead price, then the export is not considered a virtual award, if the export bid is $<$ the final day-ahead clearing price then the original day-ahead position is considered an “implicit virtual bid” and subject to CRR clawback if applicable.

The above rule contradicts economics, LMP market functionality and efficiency, while disregarding system dynamics that change between the day-ahead market run and the FMM. The CAISO has also clearly taken a “one-sided” approach in an effort to promote liquidity on the interties, while only focusing on what “benefits” CAISO and not WECC or other market participants in the west including EIM market participants.

Q: What is the purpose of a one-sided approach vs. an approach that allows all market participants the ability to efficiently and effectively manage system dynamics and risk?

Vitol reiterates our previous comments and asks that the CAISO explain the following:

- Why does the CAISO propose a “one-sided” solution?
 - On one had the CAISO is promoting EIM and balancing, but on the other hand they are willing to restrain (certain) market participants from reacting to price and changing system dynamics. This completely undermines the purpose of an LMP market.
- With the ability to determine “intent” related to day-ahead schedules, why does the CAISO not use a mechanism already in place to facilitate clawback?

- This solution, even though still with slight flaws, could be implemented in an unbiased way that allows all market participants an equal ability to manage system dynamics and market risk.
- What is the purpose of using a day-ahead price when determining clawback? Or, Can the CAISO explain how the day-ahead price is relevant when managing in the FMM or real-time market as it relates to CRRs?
- Why does the CAISO completely ignore the fact that the following could play a role in why day-ahead prices would be completely irrelevant when determining clawback?
 - FMM or Real-time LMP prices – Price dictates behavior
 - Opportunity costs
 - Carbon costs
 - Load deviations
 - Forecast deviations
 - Outages
 - Generator/stack deviations
 - Forecast deviations
 - Outages
 - Renewable supply deviations
 - Forecast deviations
 - Outages
 - Transmission outages
 - Economics – Supply & demand

Q: As stated above, there are many system dynamics that change the needs of the electrical system, why would the CAISO consider linking potentially two completely irrelevant actions, based on an irrelevant day-ahead price, in an effort to clawback CRRs?

The CAISO should be tasked with implementing and facilitating a well-functioning market that is not one-sided and not counterintuitive to the meaning of an “LMP” market. The CAISO’s proposal is a step better than the existing clawback rule that completely ignores market efficiency and the general principles of economics, but still drastically falls short of what should be considered, in an effort to promote efficiency and/or a true market.