



# **Penalty Enhancements: Demand Response, Investigation, and Tolling (PEDRIT) Draft Final Proposal**

July 18, 2024

**Penalty Enhancements: Demand Response,  
Investigation, and Tolling  
Draft Final Proposal**

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## 1. Executive Summary

The California Independent System Operator's 2023-2025 Policy Initiatives Roadmap, presented to the ISO Board of Governors and the Western Energy Imbalance Market (WEIM) Governing Body in May 2023, included a proposed initiative titled "Rules of Conduct Changes to Address Metering Penalty Issues." In response to internal and external input, the ISO expanded the scope of this effort to create the "Rules of Conduct Enhancements" (ROCE) initiative and a follow-up, "Penalty Enhancements: Demand Response, Investigation, and Tolling" (PEDRIT).

ROCE focused on meter data penalties, with three additional procedural topics.<sup>1</sup> On September 20, 2023, the ISO Board of Governors and the WEIM Governing Body approved the initiative enhancements. The ISO filed the proposed ROCE tariff amendments with FERC on January 12, 2024. On March 22, 2024, FERC accepted the proposed tariff amendments.<sup>2</sup> The ISO implemented ROCE on April 1, 2024.

### **The PEDRIT initiative proposesto:**

1. Set the due date for demand response (DR) monitoring data<sup>3</sup> submission at 52 business days after the trade date (T+52B).<sup>4</sup> Late data would be penalized \$1000 per trading day per scheduling coordinator identification code (SCID). Data missing past 214 business days after the trade date (T+214B) would be penalized an additional \$3000 per trading day per SCID, yielding a total penalty of \$4000 per trading day. Provide a pre-deadline courtesy notice for missing DR monitoring data.
2. Remove upfront payment from the penalty tolling process. Market participants would have 30 days to appeal to FERC and provide the FERC filing docket number to the ISO before penalty collection.
3. Simplify the Rules of Conduct investigative process from three letters to two, increase guidance surrounding contestation submittal, and centralize investigation documentation to one CIDI ticket.<sup>5</sup>
4. Create an inaccurate meter data penalty materiality threshold. Self-reported inaccuracies less than 3% or below 3MW per day will not be considered a tariff violation nor subject to penalties.
5. Removes the ISO reporting requirement for federal entity Rules of Conduct violations.

The ISO plans to present the final PEDRIT proposal to the WEIM Governing Body and ISO Board of Governors on September 26, 2024. Each chapter is informed by stakeholder input received through the workshop (June 7, 2023), ten subsequent sets of written comments, the straw proposal stakeholder meeting (April 3, 2024), seven subsequent sets of written comments, the revised straw proposal stakeholder meeting (June 3, 2024), and six subsequent sets of written comments. Stakeholders are encouraged to provide feedback at the draft final proposal stakeholder meeting on July 25, 2024 and via written comments due August 8, 2024.

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<sup>1</sup> The three procedural topics were clarifying eligibility for penalty distribution, eliminating the annual penalty distribution FERC filing, and clarifying application of market adjustment provision in the context of WEIM entities.

<sup>2</sup> [Letter Order Accepting Rules of Conduct Enhancements Phase 1 Tariff Amendment](#)

<sup>3</sup> DR monitoring data includes underlying load data for customer load baseline, actual load data for treatment group comparison, and calculated customer load baseline values for performance. [BPM for DR, Appendix B](#)

<sup>4</sup> "T" refers to trade date, e.g. T+52B is the trade date + 52 business days

<sup>5</sup> The three letters sent in the investigative process are the Notice of Review, Results of Review, and Description of Penalty. The ISO proposes merging the Results of Review and Description of Penalty.

## 2. Changes from Revised Straw Proposal and Responses to Stakeholder Feedback

The ISO published the PEDRIT revised straw proposal on May 24, 2024. The ISO held a virtual meeting to discuss the straw proposal on June 3, 2024, with written comments due June 14, 2024. Stakeholder feedback is the foundation for the modifications and clarifications in the draft final proposal, which builds on the revised straw proposal by:

- **Introducing a courtesy notice for monitoring data penalties.** Stakeholders expressed support for a courtesy notice for missing DR monitoring data at T+44B prior to the proposed monitoring data submission requirement at T+52B. With PEDRIT implementation, the ISO proposes sending courtesy notices via email until an automated self-serve courtesy solution is completed by 2026.
- **Eliminating the ISO reporting requirement for federal entities.** Due to limitations in statutory authority, the ISO cannot impose Rules of Conduct sanctions on federal entities. If a federal entity violates the Rules of Conduct, the ISO is required to send a report to the United States Secretary of Energy or other appropriate Department Secretary outlining the incident. Federal entities already receive notice in the Rules of Conduct investigative process, including letters outlining investigations and subsequent findings. Sending an additional report to the Secretary of Energy may be redundant and is an administrative burden for both the ISO and the Energy Department. Therefore, the ISO proposes removing tariff section 22.9b.
- **Increasing guidance on Rules of Conduct investigation contestations.** In response to a stakeholder request for enhanced communication, the proposal includes increased upfront stakeholder guidance on what contestations lead to no penalty or violation during the investigation, versus what falls under FERC jurisdiction. The ISO envisions additional training, examples, and a template guide to support market participants in deciding whether their contestation falls under ISO purview (“issues of fact”) or FERC purview (all other issues). The ISO believes fewer, higher relevance contestations would be submitted, reducing administrative burden for both the ISO and market participants. Additionally, per stakeholder request, the ISO commits to including Exhibit 2 of the draft final proposal or an equivalent figure in the Business Practice Manual (BPM).
- **Outlining a new business process for a single CIDI ticket per investigation.** In response to stakeholder feedback, the ISO proposes a new process for investigation documentation. The ISO will open a CIDI ticket when the Rules of Conduct investigation is started. This CIDI ticket will host all investigation letters and can be used by market participants to provide responses. The CIDI ticket will stay open until either the investigation closes or a settlement invoice is issued after the FERC penalty tolling period.
- **Clarifying the DR monitoring data penalty structure.** Since the DR monitoring data penalty structure contains no penalty for on-time inaccurate submission with corrections after the submission deadline, a materiality threshold similar to inaccurate meter data penalties would be redundant. Under the proposal, all “inaccurate” monitoring data submittals are already exempt from penalties, unlike meter data. Note: Market participants are still obligated under FERC’s

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market behavior rules (18 CFR §35.41(b)) to exercise due diligence to prevent submission of false/inaccurate information to an ISO or RTO. Second, the submission deadline for monitoring data is based on the applicable trade date. For example, trade date 6/13/2024's T+52B deadline is 8/26/2024. By 8/26/2024, 45 days of baseline monitoring data is required (not sooner). Note: The submission deadline for all historical monitoring data follows the same timeline as settlement quality meter data (T+52B: 52 days after the trade date the DR program was active).

- **Clarifying the materiality threshold for inaccurate meter data penalties.** The ISO's proposal determines the total inaccuracy by comparing the overall trading day's inaccurate submittal to the trading day's accurate, post-T+52B submittal for both the percentage and megawatt thresholds. "Percentage off" is calculated by the number of megawatts inaccurate divided by the actual megawatt quantity, multiplied by 100. The materiality threshold is based on total MW quantity, rather than frequency or severity of inaccuracies. Second, the materiality threshold for inaccurate meter data penalties is added to the current approved penalty for inaccurate meter data. The current inaccurate meter data penalty was updated in Rules of Conduct Enhancement as the lower of \$1000 or 30% of the value of the error per trading day.

### 3. Initiative Background

The ISO Rules of Conduct are guiding principles for ISO market participants and are intended to provide fair notice to market participants of expected conduct; foster an environment in which all parties may participate in the market on a fair and equal basis; redress instances of market manipulation and anti-competitive behavior; and increase the confidence of market participants, ratepayers, and the general public in the proper functioning of the ISO markets.<sup>6</sup>

The ISO tariff establishes data submission deadlines and informational requirements to support market administration, timely market settlement, and identification of potential market manipulation and anti-competitive behavior. In the event of non-compliance, the ISO investigates and administers prescribed sanctions for pre-determined objective violations of the Rules of Conduct. Ultimate authority surrounding the Rules of Conduct, however, rests with FERC. FERC adjudicates Rules of Conduct issues if the ISO cannot objectively determine either if an entity violated the Rules of Conduct or what the sanction should be. Entities also have the right to appeal ISO Rules of Conduct decisions to FERC.

The 2023-2025 Policy Initiatives Roadmap<sup>7</sup>, as presented to the ISO Board of Governors and the Western Energy Imbalance Market Governing Body in May 2023, included "Rules of Conduct Changes to Address Metering Penalty Issues" as a topic. This initiative was included in the Policy Roadmap in response to stakeholder requests and subsequent FERC waiver requests that argued meter data penalties were disproportionately high for small, long-term meter data inaccuracies. After identifying additional potential enhancements to the Rules of Conduct, the ISO expanded the initiative's scope and renamed it

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<sup>6</sup> [Tariff §37](#).

<sup>7</sup> [Final 2023-2025 Policy Initiatives Roadmap](#)

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the “Rules of Conduct Enhancements” (ROCE) initiative. ROCE remained focused on the original scope of addressing the meter data penalty topic while PEDRIT focuses on addressing additional topics.

Stakeholder input received through the workshop (June 7, 2023), ten subsequent sets of written comments, the straw proposal stakeholder meeting (April 3, 2024), seven subsequent sets of written comments, the revised straw proposal stakeholder meeting (June 3, 2024), and six subsequent sets of written comments were considered in developing the proposal. Stakeholders are encouraged to provide feedback at the draft final proposal stakeholder meeting on July 25, 2024 and via written comments due August 8, 2024. Stakeholder feedback is fundamental to good policy development. The ISO thanks each stakeholder who shared their perspective in verbal and written comments. We look forward to continuing to engage with stakeholders through a transparent, respectful, and inclusive stakeholder process.

## 4. Initiative Scope and Schedule

PEDRIT addresses five scope items for potential Rules of Conduct penalty and process enhancements (Table 1). The ISO plans to present the final PEDRIT proposal to the WEIM Governing Body and the ISO Board of Governors for approval on September 26, 2024 (Table 2).

*Table 1: Rules of Conduct Enhancements – Summary of Topics*

Topics	Chapter:	PEDRIT Joint Board Decision: Sept 2024	ROCE Joint Board Approval: Sept 2023
<b>Define submission requirements and penalty structure for DR monitoring data</b> <ul style="list-style-type: none"><li>Set submission requirement for DR monitoring data at T+52B, aligning with settlement quality meter data submission process.</li><li>Data submitted between T+52B and T+214B would be penalized at \$1000 per trade date per SCID.</li><li>Data missing past T+214B would be penalized an additional \$3000 per trade date per SCID.</li><li>Penalties will apply per SCID, rather than per resource</li><li>Penalties will be equivalent for missing one or multiple streams of DR monitoring data.</li><li>Penalties apply for not submitting minimum 45 days of historical data (reduced from 90 days). Any additional data detailed per specific baseline methodology remains required with non-submittal subject to listed penalties: \$1000 per trade date for submittal after T+52B; \$3000 additional per trade date for submittal after T+214B.</li></ul>	5	✓	

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<ul style="list-style-type: none"> <li>Extend T+44B courtesy notice for missing monitoring data with PEDRIT implementation. Move to automated self-serve courtesy solution by 2026.</li> </ul>			
<b>Streamline Rules of Conduct investigative process</b> <ul style="list-style-type: none"> <li>Two-letter process: Notice of Review, 30 day period for scheduling coordinator (SC) response, Results of Review including penalty description if applicable.</li> <li>After Results of Review, stakeholders may appeal penalty case to FERC.</li> <li>Additional training, examples, and template guide to support Market Participants in deciding whether contestations fall under ISO jurisdiction (“issues of fact”) or FERC jurisdiction prior to submittal.</li> <li>Single CIDI ticket to host all investigation letters. May be used by market participants to provide responses</li> </ul>	6	✓	
<b>Update penalty tolling process</b> <ul style="list-style-type: none"> <li>Provide penalized entities 30 days to appeal to FERC before penalty collection.</li> <li>Entities must provide evidence to the ISO of their filing via FERC filing docket number.</li> <li>Eliminate current process of upfront ISO penalty collection and then penalty return when an entity appeals to FERC</li> </ul>	7	✓	
<b>Inaccurate Meter Data Penalty Materiality Threshold</b> <ul style="list-style-type: none"> <li>3% and 3 MW threshold: Meter data inaccuracies under 3% of the actual meter data or under 3MW per day would not be considered a tariff violation.</li> <li>No Rules of Conduct investigation and no penalty</li> <li>No effect on disposition of proceeds standing</li> <li>Market adjustment continues to apply</li> </ul>	8	✓	
<b>Eliminates ISO reporting requirement for federal entities :</b> <ul style="list-style-type: none"> <li>Remove ISO requirement to send report to the Secretary of Energy for any federal entity Rules of Conduct violation</li> </ul>	9	✓	
<b>Meter data penalties</b> <ul style="list-style-type: none"> <li>Redesigned penalty for inaccurate meter data submissions: Lower of: (a) 30% of error value (min. interval locational marginal price of \$10); or (b) \$1,000/trading day.</li> <li>Retain late meter data penalty (post T+52B) at \$1,000/trading day.</li> <li>Retain “missing” meter data penalty (post T+214B) at additional \$3,000/trading day.</li> <li>Establish that non-submittal of settlement quality meter data will be penalized only when a resource has non-zero total expected energy for a settlement interval.</li> </ul>			✓

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<ul style="list-style-type: none"> <li>Extend T+44B (pre-deadline) internal automatic notice for missing meter data to applicable scheduling coordinators as a courtesy.</li> </ul>			
<b>Clarify eligibility for penalty distribution</b> <ul style="list-style-type: none"> <li>In addition to entities that have received a penalty, by default, entities that have received a penalty waiver or are exempt from penalties in a given year are ineligible for that year's penalty distribution unless FERC rules that no violation occurred.</li> </ul>			✓
<b>Eliminate annual penalty distribution filing</b> <ul style="list-style-type: none"> <li>Remove FERC approval requirement for distribution of Rules of Conduct proceeds. Post informational report on the ISO website.</li> </ul>			✓
<b>Clarify application of market adjustment provision in the context of WEIM entities</b> <ul style="list-style-type: none"> <li>The ISO will not apply a market adjustment if there are no additional scheduling coordinator IDs in a given utility distribution company area.</li> </ul>			✓

**Table 2: Penalty Enhancements: Demand Response, Investigation, and Tolling – Initiative Schedule<sup>8</sup>**

Date	Milestone
June 7, 2023	Stakeholder workshop: scope and tracks
March 28, 2024	Straw proposal posted
April 3, 2024	Stakeholder meeting to discuss straw proposal
April 19, 2024	Due date for stakeholder comments on straw proposal
May 24, 2024	Revised straw proposal posted
June 3, 2024	Stakeholder meeting to discuss revised straw proposal
June 14, 2024	Due date for stakeholder comments on revised straw proposal
July 18, 2024	Draft final proposal posted
July 25, 2024	Stakeholder meeting to discuss draft final proposal
August 8, 2024	Due date for stakeholder comments on draft final proposal
September 26, 2024	ISO Board of Governors and WEIM Governing Body joint decision on PEDRIT

<sup>8</sup> This timeline is tentative. Milestone dates are not finalized until the ISO issues a market notice.



## 5. Define submission requirements and penalty structure for DR monitoring data (Sections 11.6.1 & 37.6.1)

### Background and objectives

Demand response resources have two distinct information submission requirements. Under Tariff Section 11.6.1, demand response resources submit demand response energy measurements (DREM), which constitute settlement quality meter data (SQMD). Tariff Section 11.6.1 separately requires the submittal of customer load baseline (BASE), load data used for developing the customer load baseline (CBL), and treatment load data (TMNT) for “monitoring, compliance, and audit purposes [...].”<sup>9</sup>

Under existing processes and Tariff Section 37.5, the current SQMD penalties for inaccurate and untimely submittal of DREM apply on a per-scheduling coordinator basis. For example, a single SC that submits late DREM for multiple resources for the same trade date would face a single \$1,000 penalty. Since DR monitoring data is not SQMD, late submission of monitoring data could be subject to penalties under the “catch all” Tariff Sections 37.6.1.1 and 37.6.1.2. These sections establish that failure to submit required information on time in accordance to tariff and BPM-specified timelines can be subject to a \$500/day penalty.<sup>10</sup> Importantly, late or missing monitoring data penalties would be applied per resource, per additional day late, and per data file.<sup>11</sup> These requirement could create excessive and multiplicitous penalty exposure for a single incident.

In 2022, the ISO submitted but later withdrew Proposed Revision Request (PRR) 1444<sup>12</sup> to define when sanctions would be applicable for late/missing DR monitoring data submissions. PRR 1444 proposed a monitoring data submission deadline at T+52B, which would allow the ISO to penalize late submissions.

The ISO received comments from DR providers that current provisions would expose them to excessive and duplicate penalties per trade day. A single application failure could affect multiple monitoring data files over many resources, resulting in multiplying penalties. For example, one stakeholder indicated that with over 60 resources in their DR portfolio, late submission of two required monitoring data files

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<sup>9</sup> Scheduling coordinators must submit the customer load baseline into the settlement quality meter data systems, as applicable. Additionally, SCs must submit actual underlying consumption or energy during all hourly intervals for the calendar days for which the meter data was collected to develop the customer load baseline pursuant to Section 4.13.4. ([Tariff § 11.6.1](#))

<sup>10</sup> CAISO Tariff § 37.6.2.1 and 37.6.2.2 further delineate the sanctions for non-submission of information in accordance with established deadlines to support the investigation.

<sup>11</sup> MRI-S Data Submittal Requirements for demand response are detailed in Appendix B of [the BPM for Demand Response](#) which identifies that submission of multiple measurement types constitute Customer Load Baseline data requirements.

<sup>12</sup> [PRR 1444](#)

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(CBL and BASE)<sup>13</sup> would result in a \$60,000 penalty/day. Additionally, the penalty could accumulate rapidly if multiple days were needed to resolve the issue. Commenters also noted that while the \$1,000/trading day penalty for SQMD deters errors that require a full market resettlement, the customer load baseline data submitted for monitoring purposes is not used in settlements and has a different impact to the market if it is late or initially inaccurate.

Based on this stakeholder feedback, the ISO withdrew PRR 1444 to review the appropriate penalty structure for DR monitoring data. In PEDRIT, the ISO proposes the following DR monitoring data submittal timeline and penalty design to deter non-compliance of DR monitoring data submission requirements, as called for in Section 11.6.1.

Under the status quo, the Department of Market Monitoring (DMM) has observed significant and ongoing problems with some demand response providers ever submitting required data. This failure to submit hampers the ability of the DMM and the ISO to monitor DR resources' self-reported load reduction performance. The ISO believes penalties on data submittal non-compliance will incentivize timely DR monitoring data submission

## **PEDRIT Proposal**

### Monitoring Data Submission Timeline

- Current Rule: The ISO requires DR monitoring data submission after a DR event.
- Proposed: The ISO requires DR monitoring data submission by T+52B after a DR event. The ISO will accept late DR monitoring data submission until T+214B, after which the data will be subject to an additional missing DR monitoring data penalty.

### Monitoring Data Penalties

- Current Rule: Failure to submit required information in accordance to tariff and BPM-specified timelines is subject to a \$500/day/resource penalty.
- Proposed: Data submitted after T+52B would be penalized at \$1000 per trading day. Data missing past T+214B would be penalized an additional \$3000 per trading day. Penalties will accrue per SCID, rather than by Resource ID. Penalties will be equivalent for missing one or multiple streams of DR monitoring data. For example, if both BASE and TMNT data files are submitted late for one trade date, the penalty would be \$1000.
  - Penalties will apply for not submitting a minimum of 45 days of historical load data used in the customer load baseline calculation for all baseline methods (instead of the current 90). Any additional data detailed per specific baseline methodology remains required.

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<sup>13</sup> Customer Baseline (CBL) measurement type is the underlying load data used in the customer load baseline calculation for all baseline methods. Currently, 90 days of historical data prior to the day of the event is required. Baseline (BASE) measurement type is the calculated customer load baseline (CLB) values used to derive the Demand Response Energy Measurement (DREM) submitted as a GEN measurement type for SQMD.

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- The ISO proposes a courtesy notice for missing DR monitoring data. With PEDRIT implementation, the ISO proposes sending courtesy notices via email on T+44B prior to the proposed monitoring data submission requirement at T+52B, mirroring the meter data courtesy notice. The process would continue until an automated self-serve courtesy solution is completed by 2026.
- Currently, the ISO sends a notice at T+53B if an entity misses the T+52B deadline. With the proposal for a “per trade date” penalty instead of a penalty based on the number of days late, no additional penalties apply until the T+214B deadline. The ISO believes this proposal properly incentivizes monitoring data submission and gives market participants sufficient time to comply before additional penalties.

**Monitoring Data Penalties Examples**

**Example 1: Late BASE and TMNT monitoring data submittal**

Scheduling Coordinator X submits Base and TMNT data files for ten demand response resources on T+55B, three days after the T+52B submission deadline. The proposed penalty would be \$1000, since Scheduling Coordinator X submitted late DR monitoring data for one trading day.

**Example 2: Late submission of CBL historical load data for multiple resources**

Scheduling Coordinator Y submits CBL data files for five demand response resources which received a dispatch on a specific trade date. However, the SC fails to submit the minimum 45 days of CBL data for two of the five resources at T+52B. The SC is notified of the late CBL data files for the two resources but fails to respond with the remaining resource data by T+214B. The proposed penalty would be \$1000 for missing the T+52B submittal deadline and an additional \$3000 for missing the T+214B submittal deadline resulting in a total penalty of \$4000.

**Example 3: Late submission of minimum 45 days CBL historical load data for single resource**

Scheduling Coordinator Z submits CBL data files prior to the T+52B submission deadline but only includes 30 days of historical load data for a demand response resource which received a dispatch on a specific trade date. The proposed penalty would be \$1000 for not submitting the minimum 45 days of historical load data prior to the T+52B submittal deadline. After notification from the ISO of the missing data at T+53B, SC Z submits the remaining 15 days of historical load data on T+65B. No additional penalties would be applied.

**Stakeholder comments**

Of the seven stakeholders who submitted written comments, four stakeholders provided comments on defining submission requirements and penalty structure for DR monitoring data. Two stakeholders expressed support for and two stakeholders expressed appreciation for the proposal, with clarifications requested. No stakeholders were opposed to the direction outlined.

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Two stakeholders requested that the proposed inaccurate meter data penalty materiality threshold be applied to DR monitoring data. Since the DR monitoring data penalty structure contains no penalty for on-time inaccurate on-time DR monitoring data submission with corrections after the submission deadline, a materiality threshold similar to inaccurate meter data penalties would be redundant. Under the current proposal, all “inaccurate” monitoring data submittals are already exempt from penalties.

One stakeholder requested clarification regarding submission deadlines for monitoring data. Under the current proposal, the submission deadline for monitoring data is based on the trade date it is applicable for. For example, trade date 6/13/2024’s T+52B deadline is 8/26/2024. By 8/26/2024, a minimum of 45 days of baseline monitoring data is required, assuming the baseline methodology used does not require additional data. Note: the submission deadline for all monitoring data follows the same timeline as settlement quality meter data (T+52B).

## 6. Streamline Rules of Conduct investigative process (Section 37.8.3-37.8.7)

### Background and objectives

The ISO employs a three-letter Rules of Conduct investigative process for potential Rules of Conduct violations. The ISO notifies the scheduling coordinator/market participant’s (SC/MP) pre-designated contact(s) of the event (Notice of Review), findings (Results of Review), and conclusions (Description of Penalty). The Notice of Review must be provided by the ISO to the SC/MP’s pre-designated contact(s) within 90 days of the ISO discovering a Rules of Conduct event. Though responses are optional, SCs have 30 days from the date of the notice to respond by opening a CIDI case. If the ISO receives a violation concession or no response within 30 days, the Results of Review letter is sent. Typically, the ISO will send the Results of Review within two weeks after concession or conclusion of the CIDI case. SCs have 30 days to respond to the Results of Review by opening a CIDI case. After concession or conclusion of the review, the Description of Penalty letter may be sent.

### PEDRIT proposal

#### Two-Notice Process in one CIDI Ticket

- Current Rule: The ISO employs the three-letter process described in the background section.
- Proposed Rule: The ISO employs a two-letter process. The ISO provides a Notice of Review to the SC (and other market participants that are subject(s) of the investigation, if applicable) within 90 days of the ISO discovering a potential Rules of Conduct violation. Scheduling coordinators or market participants may respond with relevant information via CIDI. When the ISO concludes its investigation (receives a violation concession, receives no response within 30 days, or receives factual information that proves or disproves the validity of the violation) the

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Results of Review letter is provided, including determination and penalty description, if applicable.

## Stakeholder comments

Of the seven stakeholders who submitted written comments in response to the revised straw proposal, three stakeholders provided comments regarding streamlining the Rules of Conduct investigative process. Two stakeholder expressed support for the topic. One stakeholder expressed support with stipulations. This stakeholder requested that the ISO includes Exhibit 2 or an equivalent figure in the BPM. The ISO appreciates feedback that Exhibit 2 was helpful in clarifying the proposal and commits to including the process flowchart or an equivalent figure in the BPM. This stakeholder also requested that the ISO enhance its communication and commits to having open dialogue between the ISO and the SC/listed generator when trying to resolve a potential Rules of Conduct violation.

In response, the proposal introduces increased upfront stakeholder support for what contestations lead to no penalty or violation during the investigation. The ISO envisions additional training, examples, and template guidance would support Market Participants in deciding whether their contestation falls under the ISO's purview ("issues of fact") or FERC's purview. The ISO believes fewer, higher relevance contestations would be submitted, reducing administrative burden for both the ISO and market participants.

The existing tariff requires the ISO to provide investigated market participants an opportunity "to present any issues of fact or other information relevant to the potential Rules of Conduct violation" and the ISO must "consider all such information or data presented." If the ISO needs to ask the market participant follow-up questions about the presented information, the ISO does so before communicating the results of the investigation. This process of resolving factual disputes remains in place under the ISO's proposal.

One stakeholder suggested that the ISO consider having one CIDI ticket associated with a single issue. The ISO appreciates the suggestion, especially the commenter's Option 2. The ISO proposes opening a CIDI ticket when a Rules of Conduct investigation is started. This CIDI ticket would host all investigation letters and can be used by market participants to provide responses. The CIDI ticket would stay open until the latter of: investigation closure or settlement invoice after the FERC penalty tolling period.

## 7. Update Penalty Tolling Process (Section 37.8.10)

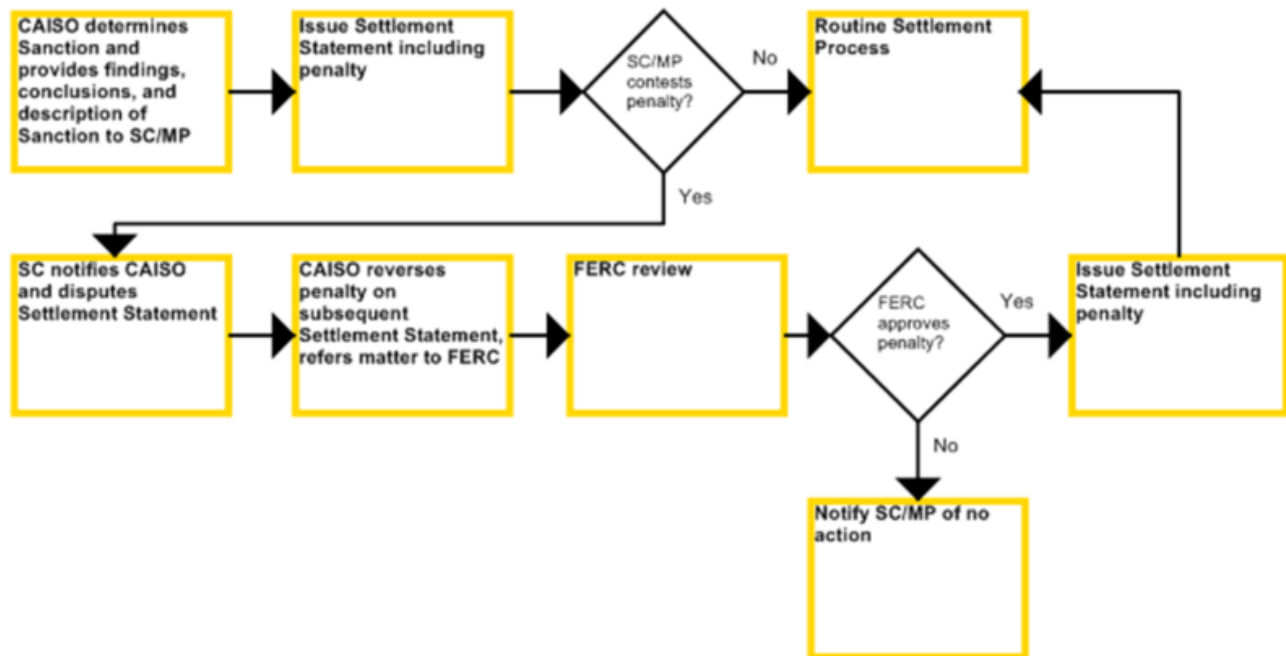
### Background

Exhibit 1 illustrates the ISO process after identifying a Rules of Conduct violation. Sanctions with financial penalties are subsequently invoiced through the ISO settlement process and timeline. After the ISO issues the settlement statement, the penalty may be contested at FERC. If the penalty is disputed

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with the ISO and the penalty is appealed to FERC by the dispute deadline,<sup>14</sup> the ISO temporarily tolls the penalty settlement pending FERC's ruling on the appeal. Tolling includes returning any collected penalty money. The ISO must follow FERC's subsequent order.

*Exhibit 1: Current ISO Administration after Rules of Conduct Violation*



## PEDRIT proposal

### Remove initial penalty collection and reversal with FERC appeal:

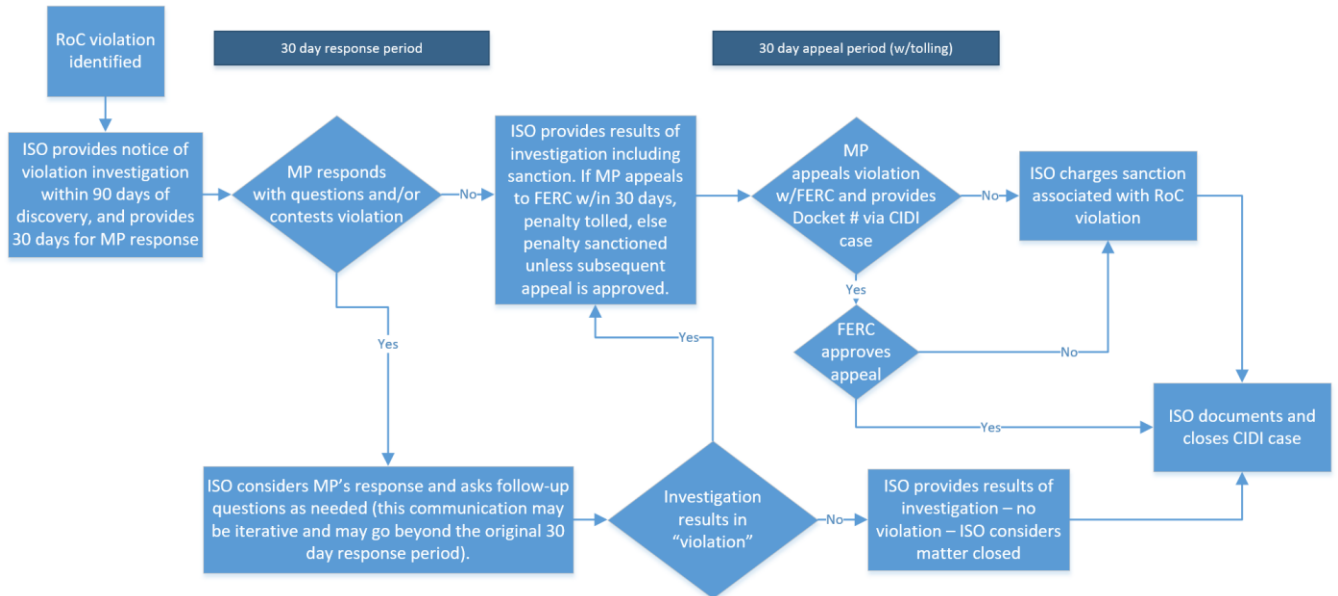
- Current Rule: After sanction determination, the ISO collects the penalty via a settlement statement. If the penalty is disputed with the ISO and the penalty is appealed to FERC by the dispute deadline, the ISO returns the penalty collection until FERC's appeal ruling.
- Proposed Rule: SC/MP has 30 calendar days after the Results of Review to provide the ISO with a FERC docket number outlining their appeal. If no FERC appeal is provided, the ISO will include the penalty on a Settlement Statement. The SC/MP may still appeal to FERC after the 30 calendar days, with the penalty refunded if the appeal is successful.
  - The proposal would not change the process for filing at FERC. The new step would be to communicate the appeal docket number to the ISO via CIDI case. In response to stakeholder feedback, market participants will be able to provide the appeal docket number in the same CIDI ticket as the original case.
  - Exhibit 2 displays the full proposed Rules of Conduct investigative process and tolling. The ISO is committed to working with stakeholders to make sure the proposal and steps

<sup>14</sup> Currently, the dispute deadline is the statement publication date plus 22 business days.

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are abundantly clear. Implementation details not clarified in the proposal will have further clarification in the Business Practice Manual update process.

*Exhibit 2: Proposed Rules of Conduct Investigation, Penalty Tolling, and Sanction Flow Chart*



### Stakeholder Comments

Of the seven stakeholders who submitted written comments, two stakeholder provided supportive comments regarding updating the penalty tolling process. No stakeholders were opposed to the direction outlined.

## 8. Inaccurate Meter Data Penalty Materiality Threshold or Waiver (Section 37.5.2):

### Stakeholder Discussion

In written comments, three general designs were proposed. Idaho Power suggested setting a daily error threshold based on a percentage of load. For example if the meter error was 1 MW and the participant had 2,000 MW of load, the total error would be .05%. The City of Corona recommended the ISO allow first-offense waivers when the entity has self-reported and the error is minor. PG&E supported the concept that a meter data inaccuracy below a certain percentage or MW value should not be considered an ISO tariff violation. Stakeholders in favor supported exploration of different options for a materiality threshold/waiver.



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The ISO's Department of Market Monitoring did not oppose discussions, but highlighted that a structure of strict deadlines and financial penalties creates important incentives for market participants to perform the desired behavior by the deadline. Removing the penalty for a particular submission deadline could result in increased non-compliance of that deadline over time.

Based on the stakeholder discussion, the ISO proposed a threshold with a percentage and MW value design in the revised straw proposal. The ISO believes this methodology best balances supporting self-reporting of small inaccuracies, incentivizing accurate meter data submittal, and ease of implementation. The ISO incorporated a stakeholder suggestion that the threshold should be applied daily, consistent with the assessment of a penalty.

## **PEDRIT proposal**

### Establish an inaccurate meter data penalty materiality threshold:

- Current Rule: Inaccurate meter data submitted after T+52B is subject to the lower of \$1000 per trading day or 30% of the value of the inaccuracy.
- Proposed Rule: Self-reported inaccuracies below 3% or 3MW of the day's actual data will not be considered a tariff violation and therefore will not be subject to penalties.
  - Inaccuracies below the threshold would not trigger a Rules of Conduct investigation.
  - Inaccuracies below the threshold would not affect disposition of proceeds standing.
  - Market adjustments would continue to apply to all inaccuracies, including inaccuracies for which the materiality threshold applies.
  - Regardless of the materiality threshold, the ISO expects market participants to report their meter data in good faith. Market participants remain obligated under FERC's market behavior rules to exercise due diligence to prevent submission of false/inaccurate information to an ISO or RTO.<sup>15</sup>

### Examples:

**Example 1:** Generator A submits an initial settlement quality meter data amount of 15 MW total for the trade date (24 hours) on T+45B, prior to the T+52B deadline. On T+63B, Generator A realizes the actual settlement quality meter data amount was 10 MW total for the trade date. Generator A resubmits the meter data upon discovery.

Test: Inaccuracy less than 3 MW or 3% of actual meter data?

- 5 MW change. 5MW > 3MW threshold ☒
- 5 MW/10 MW = 50%. 50% > 3% threshold ☒<sup>16</sup>

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<sup>15</sup> [18 CFR §35.41\(b\)](#)

<sup>16</sup> ☒ = not below the materiality threshold

☑ = below the materiality threshold



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Generator A's meter data inaccuracy is larger than 3 MW for the trade date. Additionally, the inaccuracy was greater than 3% of the actual meter data. Therefore, Generator A's inaccuracy is referred to the Rules of Conduct investigative process for potential tariff violation and penalties.

**Example 2:** Load B submits 9,900 MW for their load meter data on T+48B. On T+70B, Load B realizes that the day's actual meter data was 10,000 MW. Load B resubmits this data, self-reporting the error.

Test: Inaccuracy less than 3 MW or 3% of actual meter data?

- 100 MW change.  $100 \text{ MW} > 3 \text{ MW threshold}$  ☐
- $100 \text{ MW} / 10000 \text{ MW} = 1\%$ .  $1\% < 3\% \text{ threshold}$  ☒

Result: Although the meter data inaccuracy is larger than 3 MW, the percentage inaccuracy from the actual data is less than 3%. Therefore, this inaccuracy would not be considered a tariff violation under the inaccurate meter data materiality threshold proposal. Load B's inaccurate submittal would not be subject to a Rules of Conduct investigation or penalties.

**Example 3:** Generator C reports meter data of 3 MW on T+46B. On T+53B, Generator C realizes that the actual meter data was 5 MW. Generator C resubmits the data on T+55B.

Test: Inaccuracy less than 3 MW or 3% of actual meter data?

- 2 MW change.  $2 \text{ MW} < 3 \text{ MW threshold}$  ☒
- $2 \text{ MW} / 5 \text{ MW} = 40\%$ .  $40\% > 3\% \text{ threshold}$  ☐

Result: Although the meter data inaccuracy is larger than 3%, the total MW inaccuracy for the day is less than 3 MW. Therefore, this inaccuracy would not be considered a tariff violation under the inaccurate meter data materiality threshold proposal. Generator C's inaccurate submittal would not be subject to a Rules of Conduct investigation or penalties.

**Example 4:** Generator D reports meter data totaling 51 MW on T+43B. On T+211B, Generator D realizes that the actual meter data totaled 50 MW for the day and resubmits the meter data to the ISO.

Test: Inaccuracy less than 3 MW or 3% of actual meter data?

- 1 MW change.  $1 \text{ MW} < 3 \text{ MW threshold}$  ☒
- $1 \text{ MW} / 50 \text{ MW} = 2\%$ .  $2\% < 3\% \text{ threshold}$  ☒

Result: The total MW change for the day is under 3 MW and the meter data percentage inaccuracy is less than 3%. Therefore, Generator D's inaccuracy would not be considered a tariff violation under the inaccurate meter data materiality threshold proposal. Generator D's inaccurate submittal would not be subject to a Rules of Conduct investigation or penalties.

## Stakeholder Comments

Of the seven stakeholders who submitted written comments, five stakeholders provided supportive comments and one stakeholder was not opposed to the inaccurate meter data penalty materiality threshold or waiver proposal. No stakeholders were opposed to the direction outlined.

Two stakeholders requested clarification on how the threshold would be calculated. The ISO's proposal determines the total inaccuracy by comparing the overall trading day's inaccurate submittal to the trading day's accurate, post T+52B submittal for both the percentage and megawatt thresholds. "Percentage off" is calculated by the number of megawatts inaccurate divided by the actual megawatt quantity, multiplied by 100. MW difference is calculated by taking the absolute value of the difference between the inaccurate and accurate total of MW for the trading day. The materiality threshold is based off total MW quantity, rather than frequency of inaccuracies in a trading day.

One stakeholder requested clarification that the Rules of Conduct Enhancements "current rule" would stay in effect in the event that the materiality threshold was not met. The stakeholder is correct. The materiality threshold for inaccurate meter data penalties are in addition to the current approved penalty for inaccurate meter data. The current inaccurate meter data penalty was updated in Rules of Conduct Enhancement as the lower of \$1000 or 30% of the value of the error per trading day.

## 9. Remove ISO reporting requirement for federal entity Rules of Conduct violations (Section 22.9):

### Background

The draft final proposal introduces a new proposal to remove the ISO's reporting requirement for federal entity Rules of Conduct violations. Due to limitations in statutory authority, the ISO cannot impose Rules of Conduct sanctions on federal entities, such as Western Area Power Administration (WAPA) and Bonneville Power Administration (BPA). If a federal entity violates the Rules of Conduct, Section 22.9b requires the ISO to submit a report to the Secretary of Energy outlining the incident.

Federal entities already receive notice in the Rules of Conduct investigative process, including letters outlining investigations and subsequent findings. Sending an additional report to the Secretary of Energy may be redundant and is an administrative burden for the ISO and Secretary of Energy office.

### PEDRIT proposal

#### Remove the ISO's reporting requirement to the Secretary of Energy

- Current Rule: Sanctions are unenforceable against a federal entity, according to section 22.9a. Instead, per Section 22.9b, the ISO submits a report to the Secretary of Energy or other

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appropriate Departmental Secretary of any circumstances that would, have otherwise rendered a federal entity liable to a sanction. The ISO may request the Secretary of Energy or other appropriate Departmental Secretary to take steps to give effect to the provision(s) that are not enforceable against the federal entity.

- Proposed Rule: Remove Section 22.9b from the tariff.

## 10. Governance Classification: Joint Authority

This initiative proposes changes to the “Rules of Conduct” in the ISO tariff as they relate to demand response monitoring data penalty design and procedural elements. The ISO believes that the WEIM Governing Body has joint authority with the ISO Board of Governors over the proposed tariff rule changes.

The ISO Board of Governors and the WEIM Governing Body have joint authority over any:

proposal to change or establish a tariff rule applicable to the WEIM/EDAM Entity balancing authority areas, WEIM/EDAM Entities, or other market participants within the WEIM/EDAM Entity balancing authority areas, in their capacity as participants in the WEIM/EDAM. The WEIM/EDAM Governing Body will also have joint authority with the Board of Governors to approve or reject a proposal to change or establish any tariff rule for the day-ahead or real-time markets that directly establishes or changes the formation of any locational marginal price(s) for a product that is common to the overall WEIM or EDAM markets. The scope of this joint authority excludes, without limitation, any other proposals to change or establish tariff rule(s) applicable only to the CAISO balancing authority area or to the CAISO-controlled grid. Note: For the avoidance of any doubt, the joint authority definition is not intended to cover balancing authority-specific measures, such as any parameters or constraints, the CAISO may use to ensure reliable operation within its balancing authority area.<sup>17</sup>

All of the tariff rule changes proposed in this initiative would be “applicable to the WEIM/EDAM Entity balancing authority areas, WEIM/EDAM Entities, or other market participants within the WEIM/EDAM Entity balancing authority areas, in their capacity as participants in the WEIM/EDAM.” None of the proposed tariff rules would be applicable “only to the CAISO balancing authority area or to the CAISO-controlled grid.” Accordingly, this initiative falls entirely within the scope of joint authority.

This proposed classification reflects the current state of this initiative and could change as the stakeholder process proceeds. Stakeholders are encouraged to submit a response to this proposed decisional classification in their written comments, particularly if they have concerns or questions.

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<sup>17</sup> Charter for EIM Governance § 2.2.1

## **11. Next Steps**

The ISO will host a virtual stakeholder call on July 25, 2024 from 2:00pm to 4:00pm (PST) to discuss the Penalty Enhancements: Demand Response, Investigation, and Tolling draft final proposal. Attendees may choose to participate virtually or provide written comments based off the meeting recording and draft final proposal. Written comments on the draft final proposal are due August 8, 2024.