



Rules of Conduct Enhancements

Track 1 Straw Proposal

July 6, 2023

Rules of Conduct Enhancements
Track 1 Straw Proposal

Table of Contents

1. Executive Summary.....	3
2. Initiative Background.....	4
3. Initiative Scope and Schedule.....	5
4. Meter Data Penalties (Section 37.11.1).....	7
Background and objectives.....	7
Stakeholder comments.....	8
Track 1 straw proposal.....	8
5. Eliminate Annual Penalty Distribution Filing (Section 37.9.4).....	12
Background and objectives.....	12
Stakeholder comments.....	12
Track 1 straw proposal.....	12
6. Clarify Eligibility for Penalty Distribution (Section 37.9.4).....	13
Background and objectives.....	13
Stakeholder comments.....	14
Track 1 straw proposal.....	14
7. Clarify Application of Market Adjustment Provision in the Context of WEIM Entities (Sections 37.5.2.3 & 37.11.2).....	15
Stakeholder comments.....	15
Track 1 straw proposal.....	15
8. Future Track Topic and Comments.....	16
Specify Information Submission Requirements Subject to “Tariff-Required Information” Penalty (Sections 37.6.1.1 & 37.6.1.2).....	16
Update Penalty Tolling Eligibility to Create Clear Pathway to Invoke Provision (Section 37.8.10).....	17
Streamline the Current Three-Letter Process or Shift Aspects to the Settlement Dispute Process (Section 37.8.3-37.8.7).....	17
Late Forced Outage Reporting Penalties (Section 37.4.1.2).....	18
Define Submission Requirements and Penalty Structure for DR Customer Load Baseline Monitoring Data (Sections 11.6.1 & 37.6.1).....	19
9. Governance Classification: Joint Authority.....	20
10. Next Steps.....	20

1. Executive Summary

On March 22, 2023 the ISO Board of Governors and the Western Energy Imbalance Market (WEIM) Governing Body approved the 2023-2025 Policy Initiatives Roadmap. Included in the Roadmap was the “Rules of Conduct Changes to Address Metering Penalty Issues” topic. After considering internal and external input, the ISO expanded the topic’s scope to the broader “Rules of Conduct Enhancements” initiative.

This initiative is separated into two tracks. Track 1 focuses on meter data penalties, with three additional procedural topics. Track 2 includes all other topics related to enhancing the Rules of Conduct. The ISO plans to present Track 1 items to the ISO Board of Governors and the WEIM Governing Body for approval on September 20, 2023. The ISO plans to launch Track 2 in Q3.

Track 1 proposes to:

1. Adjust meter data penalties;
2. Eliminate the annual penalty distribution filing;
3. Clarify eligibility for the penalty distribution; and
4. Clarify application of the market adjustment provision in the context of WEIM entities.

Proposed Track 2 topics include:

1. Streamlining the Rules of Conduct investigative process;
2. Specifying information submission requirements subject to the “tariff-required information” penalty;
3. Updating penalty tolling eligibility to create a clear pathway for scheduling coordinator to invoke the provision;
4. Reviewing late forced outage reporting penalties; and
5. Defining submission requirements and the penalty structure for DR customer load baseline monitoring data.

Before October 1, 2011, late and inaccurate settlement quality meter data penalties were based on 30% of the error cost when scheduling coordinators identified and reported the error to the ISO.¹ These penalties were changed to \$1,000 per-trading day because the percentage structure led to very large penalties for single-issue events with scale. However, the per-trading day penalty design has led to disproportionate penalties for small, long-term errors, with penalties upwards of 983% of market impact. The ISO proposes changing the inaccurate meter data penalty from \$1,000 per-trading day to the lower of: a) 30% of the error’s absolute value; or b) \$1,000/trading day. The ISO also proposes maintaining the \$1,000 per-trading day for “late” post-T+52B meter data submission and an additional \$3,000 per-trading day penalty for “missing” meter data at the T+214B deadline. Due to stakeholder feedback, the ISO proposes notifying entities missing meter data at T+44B to promote T+52B meter data submission compliance.

¹ CAISO tariff § 36.43, (09/09/2011)

Rules of Conduct Enhancements Track 1 Straw Proposal

Currently, the ISO must receive FERC approval prior to distributing the Rules of Conduct penalty fund. The ISO believes posting an informational report to the ISO website would provide sufficient transparency while reducing administrative burden. Additionally, the ISO proposes two clarifications to the Rules of Conduct. First, by default, entities exempt from penalties or receiving a penalty waiver in a given year should not receive proceeds from that year's penalty distribution. Second, if a market participant's unaccounted for energy (UFE) impacts no additional entities, no market adjustment should be applied.

Each chapter is informed by stakeholder input from the June 7, 2023 workshop and written comments submitted by June 20, 2023. Stakeholders can provide feedback on this straw proposal at the July 13, 2023 straw proposal meeting and in written comments due July 20, 2023.

2. Initiative Background

The Rules of Conduct² are intended to: provide fair notice to market participants of expected conduct, foster an environment in which all parties may participate on a fair and equal basis, redress instances of market manipulation and anticompetitive behavior, and increase confidence of market participants, ratepayers, and the general public in the proper functioning of the ISO markets.

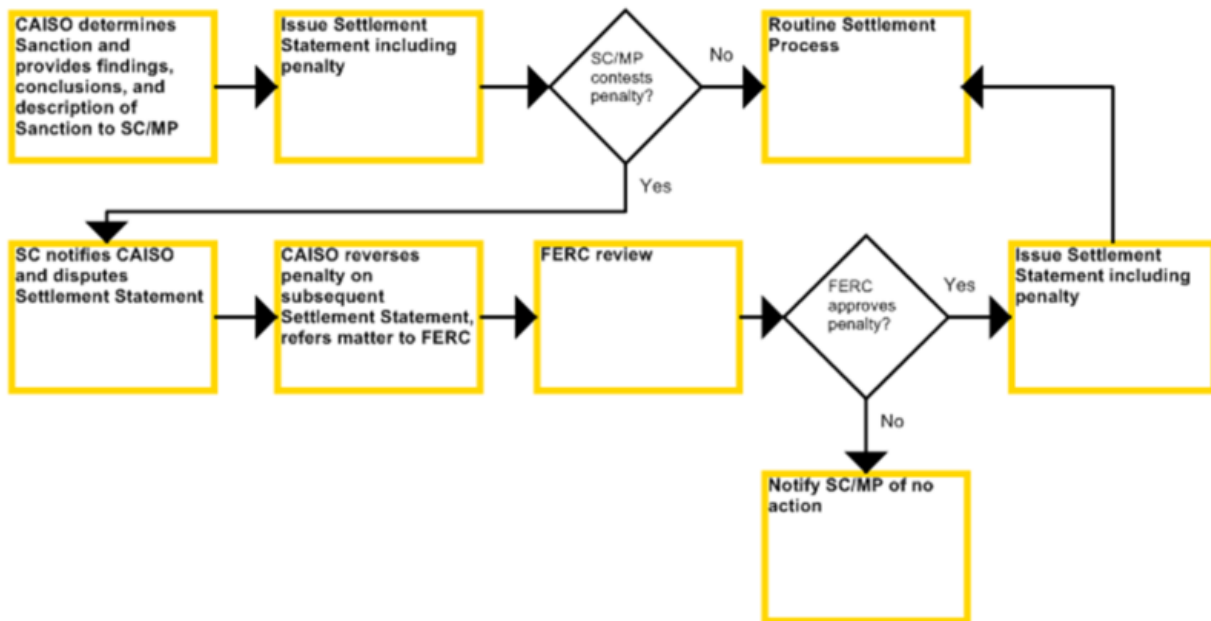
The tariff establishes data submission deadlines and informational requirements to support market administration and timely market settlement. In the event of non-compliance, the ISO investigates and administers prescribed sanctions for pre-determined objective violations of the Rules of Conduct. If the ISO cannot make an objective determination of: 1) whether an entity violated the rules of conduct; and 2) what the sanction should be, the ISO defers to the Federal Energy Regulatory Commission's (FERC) judgement. Ultimate authority surrounding the Rules of Conduct rests with FERC, including ruling on tariff waiver requests.

Exhibit 1 illustrates the ISO process after a Rules of Conduct violation has been identified. The ISO first determines the appropriate penalty code and sanction, based on the tariff. Then, the ISO notifies the scheduling coordinator/market participant's (SC/MP) pre-designated contact of the event, findings, and conclusions. Sanctions with financial penalties are subsequently invoiced through the ISO settlement processes and timelines. After the settlement statement has been issued, the SC/MP may contest the penalty to FERC or request the ISO contest the penalty on the entity's behalf. Then, the ISO reverses the penalty settlement temporarily, and FERC launches a review. The ISO must follow FERC's subsequent order.

² CAISO tariff § 37.

Rules of Conduct Enhancements Track 1 Straw Proposal

Exhibit 1: ISO Administration after Rules of Conduct Violation



On March 22, 2023 the ISO Board of Governors and the WEIM Governing Body approved the 2023-2025 Policy Initiatives Roadmap which included the topic “Rules of Conduct Changes to Address Metering Penalty Issues.” This topic was included in the policy roadmap in response to stakeholder feedback and subsequent FERC waiver requests outlining that penalties were disproportionate for small, long-term meter data inaccuracies. After identifying additional potential enhancements to the Rules of Conduct, the ISO expanded the topic’s scope and renamed it the “Rules of Conduct Enhancements” initiative, while maintaining an immediate focus on addressing meter data penalty issues within Track 1.

Stakeholder input during the June 7, 2023 workshop and written stakeholder comments submitted by June 20, 2023 have informed the scope of the Track 1 Straw Proposal. Stakeholder feedback is fundamental to good policy development, and the ISO thanks each stakeholder who has shared their perspective thus far. We look forward to continuing to engage with stakeholders through a transparent, respectful, and inclusive stakeholder process.

3. Initiative Scope and Schedule

The Rules of Conduct Enhancements initiative is comprised of two tracks evaluating nine topics (Table 1). Track 1 is narrowly scoped, with a primary focus on evaluating the meter data penalty design in

Rules of Conduct Enhancements Track 1 Straw Proposal

response to stakeholder feedback and FERC encouragement.³ The ISO plans to present Track 1 to the ISO Board of Governors and WEIM Governing Body for approval on September 20, 2023 (Table 2). The four Track 1 topics are described in Chapters 4-7.

Track 2 considers Rules of Conduct topics and penalties more broadly. These topics will benefit from deeper stakeholder engagement and exploration. Chapter 8 describes the five topics currently included in Track 2’s scope, and topics may be added in response to stakeholder feedback or internal input. The Track 2 timeline will be developed in Q3 2023.

Table 1: Rules of Conduct Enhancements – Summary of Topics

<u>Rules of Conduct Enhancements</u> Track 1: Narrow scope, focus on meter data penalties Track 2: Broader exploration of topics	Chapter:	Track 1 Board Decision: Sept 2023	Track 2 Board Decision: TBD
Meter data penalties <ul style="list-style-type: none"> • New penalty for inaccurate meter data submissions: Lower of: (a) 30% of error value; or (b) \$1,000/trading day • Retain late meter data penalty (post T+52B) at \$1,000/trading day • Retain missing meter data penalty (post T+214B) at additional \$3,000/trading day • New notice: Extend T+44B (pre-deadline) internal automatic notice for missing meter data to market participants 	4	✓	
Eliminate annual penalty distribution filing <ul style="list-style-type: none"> • Remove FERC approval requirement for distribution of Rules of Conduct proceeds. Post informational report on the ISO website 	5	✓	
Clarify eligibility for penalty distribution <ul style="list-style-type: none"> • By default, entities that have received a penalty waiver or are exempt from penalties in a given year cannot partake in the annual penalty distribution filing 	6	✓	
Clarify application of market adjustment provision in context of WEIM entities <ul style="list-style-type: none"> • The ISO will not apply a market adjustment if there are no additional scheduling coordinator IDs in a given utility distribution company (UDC) area. 	7	✓	
Streamline Rules of Conduct investigative process <ul style="list-style-type: none"> • Streamline the current three-letter process or shift aspects to the settlement dispute process 	8		✓

³ Federal Energy Regulatory Commission, Order Granting Waiver Requests, Docket No. ER21-395-000 (April 15, 2021)

Rules of Conduct Enhancements Track 1 Straw Proposal

Specify information submission requirements subject to “tariff-required information” penalty <ul style="list-style-type: none"> Current: \$500/day penalty catchall for late information submission 	8		✓
Update penalty tolling eligibility to create a clear pathway for SC to invoke the provision <ul style="list-style-type: none"> Create a process for the tolling provision to kick in without the penalty first appearing on a settlement statement 	8		✓
Late forced outage reporting penalties <ul style="list-style-type: none"> Eliminate penalties altogether or create stricter penalties by removing the free pass and/or warning letter stages 	8		✓
Define submission requirements and penalty structure for DR customer load baseline monitoring data <ul style="list-style-type: none"> Review data that should be submitted, define clear deadlines for submitting the data, and design penalties to deter non-compliance 	8		✓

Table 2: Rules of Conduct Enhancements Track 1 – Initiative Schedule⁴

Date	Milestone
June 7, 2023	Stakeholder workshop: Rules of Conduct Enhancements scope and tracks
June 20, 2023	Due date for stakeholder comments on workshop
July 6, 2023	Publish Track 1 Straw Proposal
July 13, 2023	Stakeholder meeting to discuss Track 1 Straw Proposal
July 20, 2023	Due date for stakeholder comments on Track 1 Straw Proposal
August 1, 2023	Publish Track 1 Draft Final Proposal
August 8, 2023	Stakeholder call to discuss Track 1 Draft Final Proposal
August 15, 2023	Due date for stakeholder comments on Track 1 Draft Final Proposal
September 20, 2023	ISO Board of Governors and WEIM Governing Body joint decision on Track 1

4. Meter Data Penalties (Section 37.11.1)

Background and objectives

Meter data represents the energy generated or consumed during a settlement interval. ISO metered entities and scheduling coordinator metered entities follow prescribed processes and procedures to ensure the data is settlement quality. Entities that do not submit settlement quality meter data (SQMD) by T+52B or revise their SQMD post-T+52B are subject to meter data penalties, as defined by the Rules

⁴ This timeline is tentative. Milestone dates are not finalized until the ISO issues a market notice.

Rules of Conduct Enhancements Track 1 Straw Proposal

of Conduct. Entities that do not submit SQMD by T+214B are deemed subject to an additional penalty for “missing” data submission.

Originally, late and inaccurate meter data penalties were based on 30% of the error’s cost if self-reported to the ISO. This penalty structure led to disproportionate penalties for short-duration events with scale. After two FERC penalty waiver request filings, the ISO changed the penalty structure to \$1,000 per trading day on October 1, 2011. However, the per-trading day penalty design has led to disproportionate penalties for small, long-term errors. For example, in 2020, the ISO submitted a FERC waiver request on behalf of an entity’s meter data penalty of \$685,000--over 983% of the error’s cost to the market.⁵ In April 2021, FERC approved this meter data penalty waiver request. In their order, FERC “encouraged CAISO to consider proposing modifications to [the] Tariff... to help CAISO avoid the need to request wavier of its Tariff in the future.”⁶ On May 2, 2023, the ISO submitted another waiver request for 16 meter data penalty cases with total penalty exposure of approximately \$2.5 million. This extended waiver request was also spurred by disproportionate penalties from small, long-term inaccurate SQMD submission. In the filing, the ISO stated that it expected to begin a stakeholder process on Rules of Conduct issues in 2023.⁷

The ISO intends to redesign the inaccurate settlement quality meter data penalty such that the cost is more proportional to the impact on the market and the ISO’s operations. The ISO believes penalties are important for deterring non-compliance, and the inaccurate SQMD penalty amount can be lowered while maintaining a similar impact on compliance.

Stakeholder comments

Stakeholders who commented are supportive of modifying the late/inaccurate meter data penalty such that the penalty is the lower of a flat per-day instance or a percentage of market impact. Stakeholders were curious to learn more about the percentage impact methodology and whether it could be extended to the \$3,000/trading day “missing” SQMD penalty. Stakeholders were also interested in whether the ISO could extend notices prior to or just after the deadline in order for entities to avoid penalties and rectify errors quickly.⁸

Track 1 straw proposal

Inaccurate Meter Data Penalties

- Current Rule: inaccurate meter data submissions are subject to a \$1,000/trading day penalty.

⁵ *Cal. Indep. Sys. Operator Corp.*, Request for Waiver, FERC Docket No. ER21-395-000 (Nov. 12, 2020).

⁶ *Federal Energy Regulatory Commission*, Order Granting Waiver Requests, Docket No. ER21-395-000 (April 15, 2021)

⁷ *Cal. Indep. Sys. Operator Corp.*, Petition for Limited Waiver of the CAISO, FERC Docket No. ER23-____-000 (Apr. 24, 2023).

⁸ Written comments and a full workshop recording can be viewed on the Rules of Conduct Enhancements initiative webpage

Rules of Conduct Enhancements Track 1 Straw Proposal

- Proposed Rule: inaccurate meter data submissions are subject to a penalty that is the lower of: a) 30% of the error's absolute value; b) \$1,000/trading day.
 - If inaccurate meter data exists in Settlements past the Resubmittal Meter Data deadline (T+214B), and the inaccuracy is to the detriment of the market the market adjustment is manually calculated as the product of the difference between the correct data and the misreported hourly data and the greater of: (a) the average of the 12 five-minute prices for the hour; or (b) \$10/MWh.
 - The penalty is in addition to the cost or refund of the error's value which will appear on the T+11M settlement statement if submitted before T+214B

$$\text{Inaccurate MDP (pre T + 214B)} = \text{Min}(|[(T + 11M \text{ value}) - (T + 70B \text{ value})] \times 30\%|, 1,000)$$

$$\text{Inaccurate MDP (post T + 214B)} = \text{Min}(|\text{Min} \left(\text{avg. of 5 min. prices for the hour}, \frac{\$10}{\text{MWh}} \right) \times \text{MW Difference} \times 30\%|, 1,000)$$

Late Meter Data

- Current Rule: \$1,000/trading day penalty is applied if no settlement quality meter data is submitted by T+52B.
- Proposed Rule: Maintain current penalty at \$1,000/trading day.
 - Initially, the ISO considered extending the 30% of market impact design to the late meter data penalty in addition to the inaccurate meter data penalty. However, doing so would delay when the late meter data penalty amount would be issued, thereby undermining its effectiveness as an incentive for compliance. Under the current design, the Notice of Review is sent within 90 days after discovery. This letter is followed by the Results of the Review and the Description of the Penalty letters. The ISO must sanction the entity no later than 1 year after ISO discovery. If the 30% of market impact design was extended to the late meter data penalty, the Notice of Review would still be sent within T+52B. However, entities would be required to wait until after T+214B for the ISO to calculate the 30% impact. With inaccurate meter data, waiting until the T+214B settlement re-run is necessary because that is when updated data can be re-run in the market. For late meter data, this delay in penalty issuance would otherwise be unnecessary.

Missing Meter Data

- Current Rule: An additional \$3,000/trading day penalty is applied if no settlement quality meter data is submitted by T+214B.
- Proposed Rule: Maintain current penalty at \$3,000/trading day.
 - Upon stakeholder request, the ISO considered extending the 30% of market impact to the "missing" meter data penalty in addition to the inaccurate meter data

Rules of Conduct Enhancements Track 1 Straw Proposal

penalty. However, given that no data has been submitted, the ISO would be unable to identify what the “value of the error” of the missing data would be.

Missing Measurements Data Notice (T+44B)

- Current Rule: The Notice of Missing Measurements is sent by the ISO on T+53B
- Proposed Rule: Create automatic notice for missing meter data at T+44B for market participants
 - Upon stakeholder request, the ISO explored adding a new notice for market participants in danger of not submitting any settlement quality meter data by T+52B. Internally, the ISO systems provide a pre-deadline automatic notice for missing settlement quality meter data at T+44B. The ISO proposes to extend this notice to market participants.
 - Upon stakeholder request, the ISO explored adding a notice immediately after T+52B. The ISO already issues the “Missing Measurements” notice to market participants by email on T+53B. Any waiver or leniency on the rules of conduct penalty must be granted by FERC through a tariff waiver request, even if the data is submitted after T+52B but within a timeframe that would have minimal impact on the market. Since the data shows that the vast majority of missing meter data cases are resolved by T+214B (Table 3), the ISO proposes to extend the notice at T+44B to all entities.

Table 3: Summary of Missing Meter Data Penalties

Sanction Year	\$1,000 Events Failure to submit meter data by meter data deadline - T+52B			\$3,000 Events Failure to submit meter data by resubmittal deadline - T+214B		
	Events	# Trade Dates	Sanction \$	Events	# Trade Dates	Sanction \$
2018	15	29	\$29,000	0	-	
2019	34	64	\$64,000	0	-	
2020	22	31	\$31,000	3	4	\$12,000
2021	40	98	\$98,000	0	-	
2022	29	44	\$44,000	4	7	\$21,000

Rules of Conduct Enhancements Track 1 Straw Proposal

Examples:

Example 1: An engineer at Utility A's generator notices that there is a discrepancy between the amount of energy flowing into the grid and the amount of energy that is being reported to the ISO. The scheduling coordinator (SC) investigates and finds that this error impacted 20 trade dates, of which three are past the T+52B deadline but before the T+214B deadline. The new meter data was 4 MW off from what was originally submitted, and the average locational marginal price (LMP) over the trading days was \$25/MW. The two methods of penalty calculations are highlighted below:

$$\begin{aligned} \text{By Trading Day: } & \$3,000 = 3 \text{ inaccurate trading days} * \$1,000 \\ \text{30\% of Impact: } & \$90 = 4 \text{ MW} * \$25/\text{MW} * 0.3 * 3 \text{ inaccurate trading days} \end{aligned}$$

Under the current Rules of Conduct, the penalty would be the \$3,000, as the penalty is \$1,000 for each of the 3 inaccurate trading days. Under the proposed change, the penalty would be \$90, since the penalty would be the lower of a) \$1,000 per-trading day (\$3,000) or b) 30% of the impact of the error (\$90). As the updated data was submitted prior to T+214B, the market resettlement automatically calculated the market impact of the new data. Utility A would be charged or credited through Settlements on the T+11M statement for the difference between the inaccurate value and the accurate value in addition to their penalty from the Rules of Conduct.

Example 2: An application failure at Utility B's SC leads to a failure to provide settlement quality meter data by T+52B for trade dates January 7, 8, and 9. The relevant data is submitted on T+65B. Meter data for each day is 500 MW. The average LMP across the market during this period was \$25.

$$\text{By Trading Day: } \$3,000 = 3 \text{ trading days missed} * \$1,000$$

Under the current and proposed Rules of Conduct, the penalty would be the \$3,000, as the penalty is \$1,000 for each of the 3 trading days missed.

Example 3: Generator C never submits settlement quality meter data for its generation facility for trading day January 4, even after multiple letters from the ISO. After a last attempt, T+214B rolls through with no word from Utility C.

$$\$4,000 = \$1,000 + \$3,000$$

Rules of Conduct Enhancements Track 1 Straw Proposal

Under the current and proposed Rules of Conduct, the total penalty would be a combined \$4,000, as the first penalty is \$1,000 for missing T+52B and the second penalty is \$3,000 for missing T+214B. Even if the ISO wanted to extend the 30% of impact methodology to the missing data circumstance, the ISO would be unable to calculate what the “impact of the error” was because there is no data for calculation. If the ISO suspected market manipulation, the ISO would forward this case to the Department of Market Monitoring for further review.

Example 4: A human-error at WEIM Entity D leads to the SC not reporting any meter data by trade day T+44B. Under the current business practice manual (BPM), the ISO would not send a notice until the SC potentially misses the deadline at T+52B. However, due to recent changes, the SC is notified at T+44B that their settlement quality meter data is missing. The SC is able to submit meter data prior to T+52B, and the ISO does not levy a penalty.

5. Eliminate Annual Penalty Distribution Filing (Section 37.9.4)

Background and objectives

The Rules of Conduct require the ISO to deposit collected penalties into an interest-bearing escrow account. At the end of each calendar year, the ISO allocates these proceeds, with accrued interest, to the scheduling coordinators of eligible market participants. Funds are distributed by the ratio of the grid management charge payments by each scheduling coordinator on behalf of eligible market participants to the total grid management charge payments by all scheduling coordinators. The distribution amount cannot be greater than the grid management charge paid by the scheduling coordinator on behalf of the eligible market participant represented.

Every year, the ISO must obtain FERC approval to distribute these penalty proceeds. The methodology for distributing the funds is objective and has remained consistent since at least 2007. Instead of a FERC filing, the ISO proposes to post an informational report on the ISO’s website, pursuant to the allocation formula in the tariff. The proposed change is intended to relieve administrative burden and increase the speed with which eligible entities receive payment.

Stakeholder comments

Stakeholder comments either supported or did not oppose the elimination of the annual penalty distribution filing in favor of an informational report posted to the ISO website. At this time, there are no alternatives to the ISO staff’s proposal.

Track 1 straw proposal

Elimination of the Annual Penalty Distribution Filing to FERC

- Current Rule: The ISO must receive FERC approval prior to distribution of penalty proceeds.

Rules of Conduct Enhancements Track 1 Straw Proposal

- Proposed Rule: The ISO distributes penalty proceeds without FERC approval
 - To maintain transparency, the ISO will post an informational report to the ISO website containing the same data that has been publicly submitted to FERC in the past. This data includes the breakdown of the calendar year’s penalties by tariff section, number of violations, and amount.

6. Clarify Eligibility for Penalty Distribution (Section 37.9.4)

Background and objectives

The ISO tariff establishes eligibility requirements for the penalty distribution. Scheduling coordinator IDs (SCIDs) who pay for grid management charges (GMC) are by default considered eligible for the annual penalty distribution. If an entity pays a penalty for non-compliance with the Rules of Conduct, they are deemed ineligible for the annual penalty distribution. Table 4 shares further data on eligible SCIDs. This topic clarifies two exceptions to this rule:

Federal power marketing agencies are exempt from penalties due to sovereign immunity, as part of the federal government. In the event that the federal power marketing agencies are out of compliance, the ISO tariff contains a separate process in which the ISO provides a report to the Secretary of Energy.⁹ Receiving a portion of the penalty distribution does not incentivize federal power marketing agencies to comply with the ISO tariff because these entities can never be charged with a penalty that would remove them from the penalty distribution. Since the goal of the penalty tolling and distribution is to incentivize compliance with the Rules of Conduct, providing a portion of the distribution to the federal power marketing agencies instead of to penalty-bound entities works against the distribution’s goal.

Similarly, entities that have been granted a penalty waiver from FERC are eligible for a pro-rata distribution from the penalty fund, unless exempted during the waiver process. In practice, unless the entity has been found not to have violated the tariff during the penalty waiver process, the entity will also be found to be exempt from the penalty distribution.

Table 4: Summary of Ineligible SCIDs as a Percent of Total

Year	# of Ineligible SCIDs	# of SCIDs Paid GMC	% of Ineligible SCIDs
2022	80	523	15%
2021	68	487	14%

⁹ CAISO Tariff § 22.9 (Consistency with Federal Laws and Regulations)

Rules of Conduct Enhancements Track 1 Straw Proposal

2020	82	427	19%
2019	56	402	14%
2018	43	395	11%
2017	18	338	5%
2016	21	303	7%
2015	31	247	13%
2014	23	230	10%
2013	15	273	5%
TOTAL	437	3,625	12%

Stakeholder comments

Stakeholders expressed either their support for or their lack of opposition to eliminating the annual penalty distribution filing in favor of an informational report. One stakeholder requested clarity that an entity providing market services and scheduling resources for other Market Participants who are ineligible for their pro-rata share of the proceeds should not be viewed as a Market Participant but as a Scheduling Coordinator and therefore be eligible for its share of distribution proceeds. That understanding is consistent with the existing tariff, and this proposed change will continue to honor the pro-rata distribution in this scenario. One stakeholder requested additional clarification about what percent of entities face a penalty in a given year. The ISO has provided this data in this section's background information.

Track 1 straw proposal

Eligibility for Penalty Distribution:

- Current Rule: Participants not assessed a penalty in a year are eligible for a pro-rata distribution from the penalty fund
- Proposed Rule: Entities exempt from penalties due to sovereign immunity or a penalty waiver are by default deemed "ineligible market participants" for annual penalty distribution purposes.
 - Entities who have received a penalty waiver and also been found to have not violated the Rules of Conduct by FERC will be eligible for the penalty distribution, so long as other Rules of Conduct violations have not been assessed.

7. Clarify Application of Market Adjustment Provision in the Context of WEIM Entities (Sections 37.5.2.3 & 37.11.2)

Where inaccurate meter data is not processed on a T+11M settlement statement and the initial error was to the scheduling coordinator's benefit (*i.e.*, over-reported generation or under-reported load), the ISO calculates a market adjustment that "approximates the financial impact on the market."¹⁰ The market adjustment is the product of the difference between the correct data and the misreported hourly data and the greater of: (a) the average of the 12 five-minute prices for the hour; or (b) \$10/MWh.¹¹

The tariff stipulates the market adjustment is "returned to the market based on the average of the pro rata share of Unaccounted for Energy (UFE) charged in the utility Service Area during the period of the inaccurate Meter Data event."¹² The tariff separately states the market adjustment funds "shall be applied first to those parties affected by the conduct," and that "[a]ny excess amounts shall be disposed of as set forth in Section 37.9.4."¹³ Section 37.9.4 requires the ISO to place penalties collected under Section 37 into an escrow account and distribute those funds after the end of each calendar year to SCIDs that were not assessed a penalty during that year.

Several data events in WEIM have raised questions about how these provisions should apply both in the WEIM context and in the CAISO BAA. The ISO intends to clarify these provisions.

One issue, described in a 2020 meter data waiver request,¹⁴ is that WEIM entities frequently are the only party paying UFE in their service area. Applying the formula in Section 37.11.2 would involve the ISO simultaneously charging and refunding the WEIM entity the market adjustment. The ISO believes it is not useful to quantify a market adjustment and immediately refund it to the same entity that paid the adjustment.

Stakeholder comments

Stakeholder comments on this topic were either supportive or requested more details before they could fully assess the proposal. Some stakeholders requested the ISO review current metering requirements to determine whether WEIM entities should face different requirements than ISO BAA footprint entities.

Track 1 straw proposal

- Current Rule: When inaccurate meter data is submitted but not processed through the settlements system, the ISO calculates a market adjustment and distributes funds pro-rata by

¹⁰ CAISO tariff § 37.11.2.

¹¹ *Id.*

¹² *Id.*

¹³ CAISO tariff § 37.5.2.3.

¹⁴ *Cal. Indep. Sys. Operator Corp.*, Request for Waiver, FERC Docket No. ER21-395-000 (Nov. 12, 2020).

Rules of Conduct Enhancements Track 1 Straw Proposal

UFE in the impacted utility area. However, WEIM entities can opt out of UFE or are the sole UFE payers in an area.

- Proposed Rule: The ISO will not apply a market adjustment if there are no additional scheduling coordinator IDs in a given utility distribution company (UDC) area.
 - Note: This solution is different than the proposed solution introduced during the June 07, 2023 workshop.
 - The ISO team believes that the proposed inaccurate meter data penalty is sufficient to encourage compliance. The purpose of the market adjustment is to provide recourse to impacted entities. The ISO believes if there are no additional parties affected by the conduct, no market adjustment is needed. The proposed penalty is the lower of: (a) 30% of error value; or (b) \$1,000/trading day
 - Some WEIM entities have multiple scheduling coordinator IDs (SCIDs) in a given UDC area. If one SCID is subject to UFE, then the market adjustment will be taken from the responsible SCID and given to the impacted SCID(s), even if all SCIDs are part of the same entity.
 - As part of this change, the ISO also seeks to clarify that the existing reference in Section 37.5.2.3 to “parties affected by the conduct” is a reference to the specific UFE-based calculations in Section 37.11.2. Finally, the ISO proposes to strike the reference in Section 37.5.2.3 to “excess amounts” because the formulation in Section 37.11.2 would not create the potential for such excess.

8. Future Track Topic and Comments

Specify Information Submission Requirements Subject to “Tariff-Required Information” Penalty (Sections 37.6.1.1 & 37.6.1.2)

Tariff Sections 37.6.1.1 and 37.6.1.2 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. As a “catch-all” provision, these sections allow the ISO to incentivize compliance for submission of information according to specified tariff and BPM timelines that do not carry their own sanction provisions or investigation guidelines.¹⁵ Prior to 2017, the ISO infrequently applied this sanction. Since, the ISO has assessed late annual and monthly resource adequacy (RA) plans and late telemetry compliance penalties more frequently. Table 5 documents the total number of assessed sanctions by topic.

¹⁵ 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.

Rules of Conduct Enhancements Track 1 Straw Proposal

Table 5: Tariff-Required Information Penalties by Topic

Description	Tariff/BPM Section	Number of Instances
Late annual and monthly RA plan submissions	Tariff 40.7	145
Late Flex RA survey	Tariff 40.10.1.2	1
Late SQMD Plan affirmation	Tariff 10.3.7.5	2
Late Masterfile resource characteristics	Tariff 4.6.4	1
Late telemetry compliance	Direct Telemetry BPM section 8.4	311

The ISO proposes clarifying specific informational deadlines that are subject to the \$500/day sanction if missed. Specificity of which requirements are subject to penalty and the sanction amount, will provide fairer notice of expected conduct, incentivize compliance, and build confidence in the proper functioning of the ISO markets.

Update Penalty Tolling Eligibility to Create Clear Pathway to Invoke Provision (Section 37.8.10)

Section 37.8.10 of the ISO tariff establishes that a scheduling coordinator or market participant that receives a sanction may dispute the settlement statement and appeal the assessment of the sanction to FERC. Upon appeal, the sanction or penalty is tolled until FERC renders a decision.

Currently, a penalty must be paid once reflected in a settlement statement. Otherwise, the scheduling coordinator or market participant may be deemed in default, with subsequent tariff provisions dictating consequences. Since tolling of the penalty occurs upon submission of a FERC appeal, penalties are paid up front with the expectation of receiving the money back, an administrative and market participant burden. Additionally, stakeholders have shared that a penalty payment can trigger disclosure requirements or other unintended consequences, even if entities are given the money back quickly.

The ISO seeks stakeholder feedback on potential pathways for triggering the tolling provision without first requiring penalty payment.

Streamline the Current Three-Letter Process or Shift Aspects to the Settlement Dispute Process (Section 37.8.3-37.8.7)

The ISO employs a three-letter process to investigate potential Rules of Conduct violations that involves extended back and forth with the ISO. The three letters are the Notice of Review, the Results of Review, and the Description of Penalty. The Notice of Review must be provided by the ISO to market participants within 90 days of the ISO discovering a Rules of Conduct event. Market participants have 30 days from the date of the notice to respond by opening a CIDI case, though responses are optional. If the ISO receives a concession of the violation the Results of Review letter is sent, and a non-response within 30 days is considered a concession. Typically, the ISO will send the Results of Review within two weeks after concession or conclusion of the CIDI case. Market participants have 30 days to respond to

Rules of Conduct Enhancements Track 1 Straw Proposal

the Results of Review, with the same ability to respond and open a case. After concession or conclusion of the review, the Description of Penalty can be sent. If market participants respond to the Results of Review, another case is opened.

The ISO must sanction no later than 1 year from the ISO's discovery of the event. The three-letter process can take many months before penalties are issued and the process is complete. The ISO seeks feedback from stakeholder about how the Rules of Conduct administrative process could be streamlined.

Late Forced Outage Reporting Penalties (Section 37.4.1.2)

Under ISO tariff Section 37.4.1.1, entities must notify the ISO of a forced (unexpected) outage of a generating unit within 60 minutes of when the outage is discovered. Subsequent tariff section 37.4.1.2 establishes consequences for failing to meet expectations. In a calendar month, the first failure per Generating Unit does not constitute a violation, the second failure per Generating Unit is a violation and receives a warning letter, and the third failure results in the following penalties:

- \$1,000 penalty for the violation to the extent there have been no previous violations over the last 12 months;
- \$2,000 penalty for the violation to the extent the generating unit has already been assessed one penalty over the last 12 months;
- \$5,000 penalty for the violation to the extent the generating unit has already been assessed two or more financial penalties for violations over the last 12 months.

Multiple late availability outages in a single day are treated as a single late outage. These penalties are intended to incent timely and urgent forced outage reporting to the ISO to ensure that the market is adjusts for resource unavailability and maintains grid reliability.

Penalties under tariff Section 37.4.1.2 are infrequently triggered. Since October 2020, there have been 258 instances of late forced outage reporting, but only 4 instances (1.5%) have been subject to assessment of penalties under the terms of the tariff. The remaining 254 (98.5%) instances of late reported outages were mostly first outages for the month, so did not qualify as a violation.

The ISO believes that incentivizing timely forced outage reporting is important for maintaining grid reliability. Therefore, the ISO is considering pathways to strengthen the penalty structure. For example, the first failure could be considered a violation, with a warning letter issued, and the second failure would trigger penalties. Alternatively, failure count could reset every 6 months rather than every calendar month. The ISO seeks stakeholder feedback on ways to enhance the forced outage penalty structure design.

Define Submission Requirements and Penalty Structure for DR Customer Load Baseline Monitoring Data (Sections 11.6.1 & 37.6.1)

Demand response (DR) Resources have two distinct information submission requirements. Under Section 11.6.1, demand response resources submit “Demand Response Energy Measurements,” which constitutes settlement quality meter data (SQMD). Section 11.6.1 separately requires the submittal of “Customer Load Baseline” for “monitoring, compliance, and audit purposes [...]”

Under existing processes and tariff Section 37.5, the current SQMD penalties for accurate and timely submittal of DR resource Demand Response Energy Measurements (DREM) apply on a per-SC 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 customer load baseline data is not SQMD, late submission of customer load baseline data could be subject to penalties under Section 37.6. As discussed in the first subsection of Chapter 8, the penalty is \$500/day per resource for every day the data is late.¹⁶ Importantly, late/missing customer load baseline data would be applied on a per-resource, rather than per-SC basis under this provision.

In 2022, the ISO submitted a Proposed Revision Request (PRR) 1444¹⁷ to clarify the penalty structures applicable to the different data submissions required for DR resources. The intent of the PRR was to provide clarity on what sanctions would be applied to missing customer load baseline data submissions. Additionally, PRR 1444 proposed to create a deadline for monitoring data submission, which would create authority for the ISO to penalize late submission.

The ISO received comments from DR providers stating concern that current provisions would expose them to excessive and multiple penalties per trade day. A single application failure could affect both SQMD and customer baseline data, resulting in multiple data files being late. For example, one stakeholder indicated that with over 60 resources in its DR portfolio, late submission of two required monitoring data files (CBL and BASE)¹⁸ would result in a \$60,000 penalty/day. Additionally, the penalty could grow exponentially if multiple days were needed to resolve the issue. Comments 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 does not share the same impact to the market if missing.

Based on this stakeholder feedback, the ISO withdrew the relevant BPM amendment to further review the appropriate application of sanctions for this data based. In Track 2, the ISO seeks stakeholder

¹⁶ MRI-S Data Submittal Requirements for Demand Response are detailed in Appendix B of the BPM for Demand Response <https://bpmcm.caiso.com/Pages/BPMDetails.aspx?BPM=Demand%20Response> which identifies that submission of data to multiple measurement type data constitute Customer Load Baseline data requirements.

¹⁷ PRR 1444 detail link <https://bpmcm.caiso.com/Pages/ViewPRR.aspx?PRRID=1444&IsDlg=0>

¹⁸ Customer Baseline (CBL) measurement type is the underlying load data used in the customer load baseline calculation for all baseline methods. 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 as SQMD.

feedback on reviewing current demand resource customer load baseline data submittal requirements, defining clear deadlines for submitting the data, and designing penalties to deter non-compliance to monitoring data submission requirements, as called for in Section 11.6.1.

9. Governance Classification: Joint Authority

This initiative proposes changes to the “rules of conduct” in the ISO tariff as they relate to meter data. ISO staff 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 any CAISO tariff rule(s) applicable to the WEIM Entity balancing authority areas, WEIM Entities, or other market participants within the WEIM Entity balancing authority areas, in their capacity as participants in WEIM. This scope excludes from joint authority, without limitation, any proposals to change or establish tariff rule(s) applicable only to the CAISO balancing authority area or to the CAISO-controlled grid.¹⁹

All of the tariff rule changes proposed in this initiative would be “applicable to WEIM Entity balancing authority areas, WEIM Entities, or other market participants within WEIM Entity balancing authority areas, in their capacity as participants in WEIM.” 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 this initiative and could change as the stakeholder process moves ahead. Stakeholders are encouraged to submit a response to this proposed decisional classification in their written comments, particularly if they have concerns or questions.

10. Next Steps

The ISO will host a virtual stakeholder call on July 13, 2023 from 9:00am to 12:00pm (PST) to discuss the Rules of Conduct Enhancements Track 1 straw proposal. Attendees may choose to participate virtually or provide written comments based off the workshop recording and straw proposal. Written stakeholder comments on the Track 1 straw proposal are due to the ISO by July 20, 2023.

¹⁹ Charter for EIM Governance § 2.2.1